Metcash Limited
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NSW 2113 Australia

30 July 2021

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

Dear Sir/Madam

METCASH LIMITED – 2021 ANNUAL REPORT

In accordance with ASX Listing Rule 4.7, please find attached a copy of the Metcash Limited 2021 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, https://www.metcash.com/investor-centre/annual-reports/.

Yours faithfully

Julie Hutton
Company Secretary

Metcash

Annual Report 2021

love your local

Lifestyle only

love your local

At Metcash, we believe that it is important to Australia that there is a sustainable, independent, family-owned business sector. Independent retailers support their local communities. We are at the heart of the local community, sourcing a range of the best products from national, international and local suppliers.

Contents

02 About Us
03 Purpose, Vision and Values
04 Chairman's Report
06 CEO's Report
10 Strategic Direction
12 Financial Highlights
14 Food
18 Liquor
22 Hardware
26 Sustainability Report
38 Our People and Our Board
40 Directors' Report
73 Financial Report
124 ASX Information
125 Corporate Information

About us

Metcash is Australia's leading wholesale distribution and marketing company with sales including charge-through of over $16bn in FY21. We believe that it is important to Australia that there is a sustainable, independent, family-owned business sector. Independent retailers are a vital part of their local communities. We help them to be the 'Best Store in Town' by providing merchandising, operational and marketing support across our Food, Liquor and Hardware pillars.

>$16bn[1]

Record group sales

Our Pillars

Food

In **Food**, we are the largest supplier to independent supermarkets in Australia, with the widest distribution network and unmatched reach and delivery frequency. We support over 1,600 stores including the well known IGA and Foodland brands. Our retailers are conveniently located and are known for being at the heart of the local community. Our network has significant representation in local neighbourhoods, as well as regional and remote areas where we are often relied on as the only store in town.

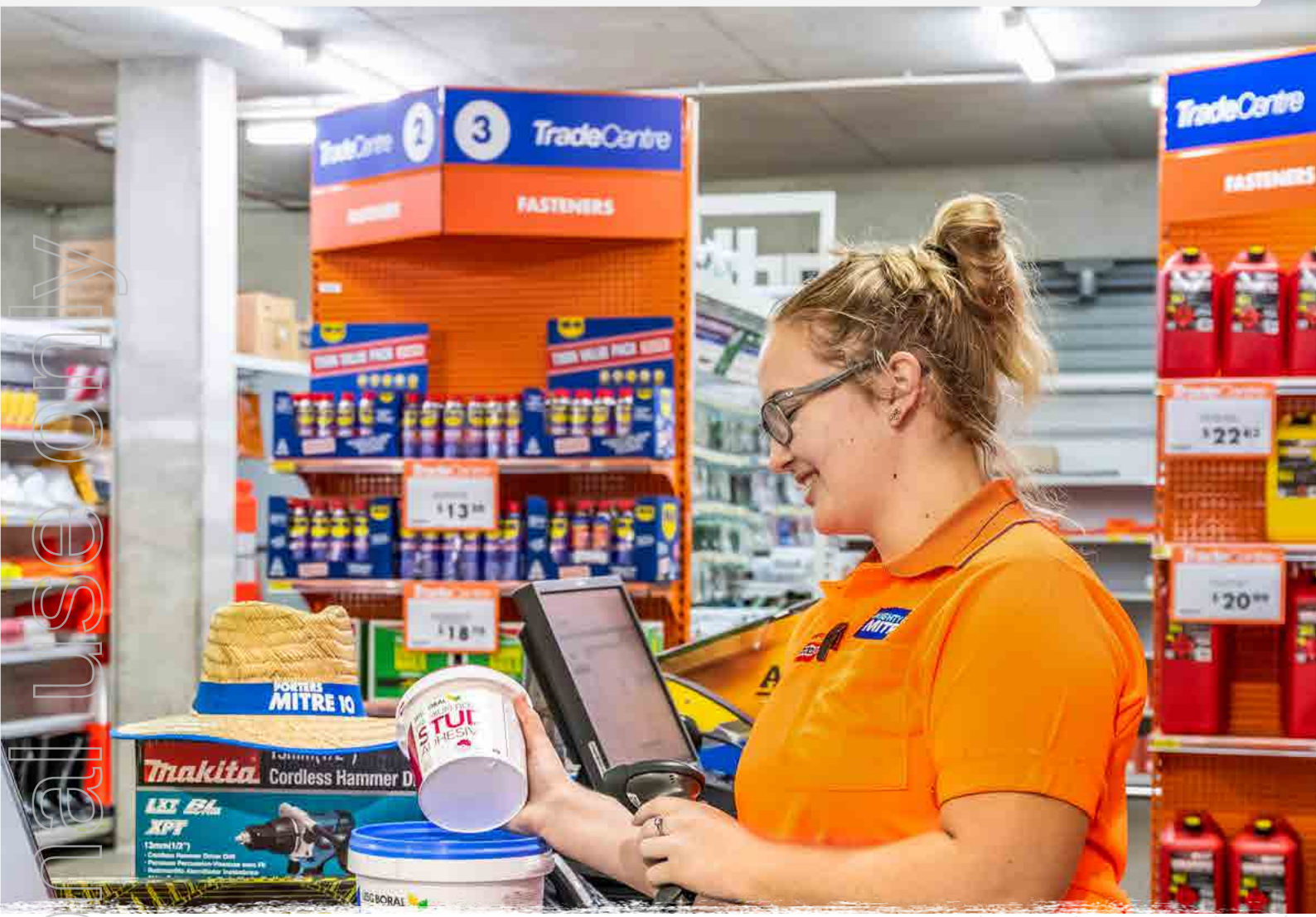
Liquor

In **Liquor**, we are the second-largest player in the market, supplying ~90% of independent liquor stores in Australia. Our Independent Brands Australia (IBA) network is home to a number of successful national brands including IGA Liquor, Bottle-O and Cellarbrations. We also supply over 12,000 liquor customers through our Australian Liquor Marketers (ALM) division which includes supply agreements with contract customers in retail and 'on-premise' market segments.

Hardware

In **Hardware**, we are the second-largest player in the Australian hardware market. Metcash's Independent Hardware Group (IHG) is a leader in Trade as well as having a solid track record of servicing the DIY market. IHG is home to the well-known Mitre 10 brand. The business has a strong track record of successful acquisitions with Home Timber & Hardware joining the group in 2016 and Total Tools coming under the banner in 2020. This has taken the combined Hardware network to over 700 stores located in metro and regional areas across the country.

1. FY21 Group reported sales revenue (which excludes charge-through sales in accordance with AASB15) was $14.3bn



Our Purpose

Championing successful independents

Our Values

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

Our Vision

- Best store in town
- Passionate about independents
- A favourite place to work
- Business partner of choice
- Support thriving communities
- Creating a sustainable future

Chairman's Report

Welcome to Metcash's Annual Report for 2021. It has been an exceptional year for the Company with record sales, a significant increase in earnings and record operating cashflow.

The early success of our MFuture initiatives laid the foundation for a very successful year for both Metcash and our independent retailers. The improved competitiveness of our retailers was a key factor in their retention of new and returning customers gained through COVID which, together with the continuation of an increased preference for local neighbourhood shopping and the migration from cities to regional areas, drove strong sales growth.

All Pillars performed strongly, with the Group continuing to successfully navigate significant challenges and uncertainty associated with COVID. I am particularly proud of the achievements of our Metcash teams and independent retailers in continuing to drive the implementation of our MFuture growth initiatives despite the challenges they faced in managing unprecedented levels of demand, border restrictions and ever-changing health regulations.

Financial results

Group revenue, including charge-through sales, increased ~10% to a record $16.4bn, with strong growth in all Pillars. Group EBIT increased ~20% to $401.4m and underlying profit after tax was ~27% higher at $252.7m. This represents a ~13% increase in underlying earnings per share to 24.7 cents.

The strong earnings, together with effective working capital management, led to record operating cashflows of ~$475m ensuring the Company continued to be in a very strong financial position at the end of the financial year with net cash of ~$125m. Our Group CEO Jeff Adams discusses the financial and operating performance of the business in more detail in his report.

Capital management

I am pleased to report that the strong Group performance and financial position, together with confidence over future operating cashflows, will result in Metcash returning ~$354m[1] to shareholders since the payment of last year's final dividend.

The Board has a strong focus on shareholder returns and is appreciative of the support received from shareholders, particularly through COVID.

The significant amount of capital being returned represents the Board's decision to raise the target dividend payout ratio from 60% to 70% of net underlying profit after tax and the announcement of an off-market buy-back of up to $175m. Importantly all shareholders, whether or not they participate in the buy-back, will benefit through earnings per share and return on equity accretive outcomes.

Shareholder dividends for the year increased 40% to 17.5 cents a share through the increase in payout ratio and the strong FY21 Group earnings.

Strategy

We are now two years into the MFuture program designed to provide a pathway to sustainable growth for Metcash, balanced with cost efficiencies. This year significant progress was made with key initiatives such as our store upgrade programs, rolling out new store formats, expanding our private and exclusive label ranges and accelerating our digital plans. We also sharpened our strategic direction to include an increased focus on customers and the community to support our aim of further improving the competitiveness of our retailers.

The early success of MFuture has provided a strong foundation for the remaining three years of the program, which includes initiatives to retain new and returned customers gained through COVID, as well as attracting new shoppers to our retail networks.

The program also includes pursuing attractive growth opportunities, including leveraging recent acquisitions such as Total Tools Holdings (TTH) in Hardware and the Kollaras private label portfolio in Liquor.

We were pleased to announce the acquisition of a 70% stake in TTH in September last year. TTH has the largest professional tools network in Australia with a network of ~90 stores, and it is complementary to our Independent Hardware Group of stores. In December TTH acquired a majority interest in 12 Total Tools joint venture stores, and in June we increased our position in TTH to 85%. TTH has a history of strong earnings and is proving to be a great acquisition for Metcash.

Board update

We welcomed Christine Holman as a non-executive director in September 2020. Christine is an experienced ASX-listed company director and has more than 25 years of commercial experience across a broad range of areas including mergers and acquisitions, finance, sales, technology, digital transformation and marketing. Christine's extensive and diverse experience is proving to be an asset to Metcash.

In May 2021 we announced that Tonianne Dwyer would retire from the Board following completion of our FY21 financial statements. Tonianne has been a significant contributor to Metcash and has played a key role, particularly while Chair of the Audit, Risk and Compliance Committee, in the oversight of Metcash's growth and governance. The Board and I sincerely thank Tonianne for her efforts and dedication to Metcash.

Also in May 2021, we welcomed Margie Haseltine to the Board. Margie has over 30 years of experience spanning supply chains and logistics, customer interface in the FMCG sector, change management and governance, and has over 12 years' experience in board directorship. Margie's executive career includes 20 years at Mars Inc. including five years as CEO of Mars Food in Australia.

Remuneration and culture

Last year the Board took certain measures in response to the uncertainty associated with COVID including deferring scheduled remuneration increases for executive Key Management Personnel (KMP); determining STI and LTI vesting outcomes based broadly on pre-pandemic outcomes to avoid any undue benefit; increasing the deferred component of the FY20 STI award; and deferring scheduled non-executive director fee increases. Once the Group's performance stabilised in FY21, the previously approved increases to KMP remuneration were applied and KMP STI deferral percentages returned to standard policy.

Remuneration for the Group CEO has not changed since his appointment in 2017, and while no increase was applied to his fixed pay, there was an increase to his STI and LTI opportunity to better align his pay mix to market practice and increase the 'at risk' component of his total remuneration.

The remuneration package for the CEO of the Food Pillar was increased, positioning him slightly below his peer group benchmark.

Board fees increased 5% in FY21 and remain below medians at between 81% and 99% of peer group benchmarks. The Board will seek shareholder approval at this year's Annual General Meeting to increase the Board fees pool from $1.6m to $2.0m, which will provide capacity to appoint an additional director in the future. This will be the first time the Board has sought an increase in the fees pool since 2012.

STI outcomes for KMP ranged from 67% to 90% of maximum reflecting the delivery of exceptional results in FY21. Our FY19 LTI vested at 90% reflecting the underlying earnings per share CAGR hurdle being met and the TSR hurdle being exceeded by 6%.

For the third consecutive year Metcash was awarded an Employer of Choice citation by the Workplace Gender Equality Agency. This is recognition of our deep commitment to gender pay parity and gender equality in the workforce. Metcash was also awarded Gold level recognition under the Mental Health First Aider Skilled Workplace Program and was identified as a Flexready Certified organisation, which recognises leading employers who support flexible work practices.

Pleasingly, our overall employee engagement result continued to improve in FY21, lifting a further ~20% to 57% through the significant efforts of our people despite facing many challenges such as the ever-changing health regulations.

Further details on our remuneration framework and outcomes for FY21 can be found in the Remuneration Report commencing on page 56.

$354m[1]

Returned to shareholders since FY20 final dividend

1. Reflects an off-market buy-back of ~$175m and excludes any FY22 potential dividends.

Environmental, Social and Governance (ESG)

The year included the Company further improving its ESG credentials, expanding its ESG disclosures and embedding sustainability into the Metcash culture. Our achievements this year, as well as the expanded disclosures, are detailed in our first Sustainability Report which is included in this Annual Report commencing on page 26. We expect to continue building on this progress over the next few years, including improving our safety performance as commented on in the CEO's and Sustainability Reports.

Going forward

While it has been an exceptional year for Metcash, shoppers are continuing to enjoy visiting their local independent stores in our Food, Liquor and Hardware network with sales in the early part of FY22 continuing to be elevated against pre-COVID levels.

Making our retailers more competitive has proven to be the right strategy for Metcash. Importantly, we continue to be well positioned with a strong financial position that includes flexibility to invest in our growth plans. Our sharpened MFuture plans for the next three years aim to further improve our retailers' competitiveness and include a balance of good growth and cost out initiatives.

While our Hardware pillar is already positioned with leading digital technology, we are stepping up our investment in digital to accelerate the delivery of solutions for our Food and Liquor retailers who now have an increased interest in these solutions. We are also investing in a new project named 'Horizon' which aims to drive efficiencies through simplification, as well as growth through making it easier to do business with Metcash. This will be a staged program with the first phase focused on simplification and building a better future operating platform.

Thanks

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

Finally, I would like to thank my fellow Directors for their commitment and contribution to Metcash over the past year, and for their ongoing support in what has been another challenging but very successful year.

Rob Murray
Chairman

CEO's Report

As the Chairman noted, it has been an exceptional year for Metcash with sales exceeding $16bn for the first time in our history, and this has driven significant earnings growth and record operating cashflow.

Our Pillars have done an outstanding job in continuing to manage through the many challenges arising from COVID, particularly those related to meeting elevated demand, supply chain challenges and the need to adjust our operations in response to the ever-changing health regulations including lockdowns, work from home requirements and border restrictions.

I am extremely proud of our Pillars and independent retailers who, despite these challenges, continued to drive the implementation of our MFuture initiatives aimed at further improving their competitiveness. We can see the benefits of their efforts in the continuation of strong sales well over a year after the commencement of COVID in March last year. Shoppers are clearly enjoying shopping locally and enjoying the improved competitiveness of our retailers.

Group results

Group revenue, including charge-through sales, increased 10.1% to $16.4bn, with significant growth in sales volumes across all Pillars. Group underlying EBIT increased 19.9% to $401.4m, reflecting the strong volume growth, contribution from our successful acquisitions and improved leverage in all Pillars.

Group underlying profit after tax increased 27.1% to $252.7m and statutory profit after tax was $239.0m (FY20: loss of $56.8m). Underlying earnings per share increased 13.3% to 24.7 cents reflecting an increase in profit after tax and the impact of the Company's capital raising in FY20.

Group operating cashflow was a record $475.5m (FY20: $117.5m) which reflects the higher earnings and a reduction in working capital. The Group continues to be in a strong financial position ending the financial year with net cash of $124.6m (FY20: $86.7m).

The strong Group performance and financial position, together with confidence over future operating cashflows led to the announcement of capital management initiatives. These included an increase in the target dividend payout ratio from 60% to 70% of net underlying profit after tax, and an off-market buy-back of up to $175m. The increase in the dividend payout ratio was effective in FY21, and together with the strong performance in the year, led to a 40% increase in FY21 dividends to 17.5 cents per share.

As noted by the Chairman, the combination of the FY21 dividend and the share buy-back will result in ~$354m being returned to shareholders since payment of the final dividend for FY20.

ESG

This year has seen a significant step up in our efforts to further improve our credentials and performance in this important area. This included amending Metcash's Vision to include "creating a sustainable future" and the establishment of the Metcash ESG Council. The Council is chaired by myself and includes members from our Group Leadership Team and will focus on embedding sustainability into the organisation's culture as well as driving our ESG agenda. Other achievements in the year include reducing our carbon footprint, setting a science-based emissions reductions target for 2030 which equates to a 42% reduction in emissions from 2020, further progress towards alignments with the Task Force on Climate-related Financial Disclosures, reducing waste to landfill as well as plastic wrapping. A full list of achievements together with other relevant disclosures are included in the Sustainability Report commencing on page 26.

Safety

Metcash remains committed to the continuous reinforcement of zero harm, which includes preventing work-related injury and illness for employees, visitors, contractors and members of the public as well as zero harm in relation to pollution in our community. There were many safety achievements in the year including improvements in our leading indicator metrics. These all trended positively in FY21, with targets being exceeded by 29% for safety engagement conversations, 95% for safety communications, 57% for safety inspections and 56% for hazards reported. Our key safety measure of Total Recordable Injury Frequency Rates (TRIFR) was slightly above the prior year at 27.1 (FY20: 26.8) which is a reflection of the increase in work complexity due to the challenges of COVID and the cycling of higher labour hours. The significant efforts of our Safety team are however reflected in a ~30% reduction in the TRIFR measure over the past four years. We have plans in place designed to improve our TRIFR performance in FY22.

Operational performance

Food

Our Food pillar performed very well delivering much higher underlying earnings while continuing to support our retail customers through the challenging environment.

Total Food sales, including charge-through sales, increased 3.1% to $9.4bn, or 11.0% excluding the impact of Drakes[1] and 7-Eleven[2]. In Supermarkets, total sales, including charge-through sales, increased 10.0% to $8.3bn, and were up 11.6% excluding the impact of Drakes.

Strong sales growth was delivered in all States, particularly Victoria where demand was elevated by extended COVID-related lockdowns.

The overall IGA network had a very strong year, resulting in an improvement in the financial health of our independent retailers, with like-for-like sales up 10.5% even with the impact of the panic buying period in March and April last year. When comparing against FY19, sales were up nearly 19% for the year. Our IGA retailers continued to benefit from the shift in consumer behaviour including an increased preference for local neighbourhood shopping, migration from cities to regional areas, more flexible working and cooking at home and the success of our MFuture initiatives to retain new and returning customers gained through COVID.

Total Food EBIT increased $9.7m or 5.3% to $192.4m. On a normalised basis after adjusting for factors such as Drakes, 7-Eleven and increased earnings from our joint venture partners, the year-on-year EBIT increase would be ~$20m or ~11%. Overall, the Food team did an excellent job managing their operating costs, even with the pressures from inflation and COVID-related costs.

The Food Pillar continued to make good progress with its MFuture initiatives. Store upgrades under the Diamond Store Accelerator (DSA) program have reached 622, with ~45% of the IGA network now refreshed. The average sales uplift for DSA stores is greater than 10%, and we plan to upgrade a further 100 to 130 stores per year over the next five years.

Under our brand clarity initiative, a new suite of brands has been developed and endorsed by our IGA retailers with 'guard rails' around store standards, product ranges and pricing to drive consistency of offer across each of the brands. Alternate non-IGA brands are available for retailers who elect to not meet the IGA brand standards. Further detail on the new brands can be found in the Food Pillar section of this report commencing on page 14.

Under our new store format trials, the first Supa Valu large format store was opened in Doonside, NSW in May last year, and a second store was opened in Ballina, NSW in March this year. The stores have been very well received and we anticipate working with our retailers to open more of these large format stores over the coming years. Our Fresh Pantry small format store trial has been completed and we are now in the process of embedding the learnings from the trial in our future network plans.

We were excited to open our new distribution centre (DC) in South Australia last December. The new DC helps to improve the competitiveness of our retailers in South Australia through providing an expanded range of products and from the delivery of increased efficiencies. Our project team did an amazing job in getting the new DC open and operating in line with our expectations despite the many challenges associated with COVID, including lockdowns in South Australia just prior to its opening.

Following the successful launch last year of our IGA Priority Shop and IGA Shop Online, further development was undertaken to deliver a next generation eCommerce platform for the IGA network. Trials of this next generation platform commenced towards the end of FY21 and we are looking to roll this platform out to ~800 of our IGA stores by FY25.

Liquor

Liquor sales, including charge-through sales, increased a significant 19.2% in the year to $4.4bn despite the adverse impact of COVID-related restrictions on 'on-premise' sales, particularly in the first half of FY21.

Wholesale sales to the IBA banner group increased over 22%, with strong growth across all our banners. Like Food, the strong demand was driven by the shift in consumer behaviour together with other market factors like reduced international travel and duty-free sales. Retail like-for-like sales in the IBA banner group increased 19.7% (FY20: +3.2%) with strong growth continuing in the second half of FY21 despite a recovery in 'on-premise' sales.

Liquor EBIT also increased significantly, up $15.9m or almost 22% to $88.7m.

Progress with our Best Store in Town initiatives resulted in a further 430 stores refreshed and an additional 133 cool rooms being upgraded. We also expanded our Owned and Exclusive product range with the acquisition of the Kollaras private label portfolio which enables us to further drive consumer value and quality while building margin for our retailers. The initial focus with our retailers has been expansion of the Owned and Exclusive wine category.

The business continued to trial its Shop My Local online offer that was launched successfully ahead of time late last financial year in response to the impacts of COVID. A further online platform was trialled in FY21 for the Cellarbrations brand in Victoria, and additional brand-based platforms are expected to be added in FY22.

1. Metcash ceased to supply Drakes in South Australia from 30 September 2019. To enable comparison, sales in the comparative period have been adjusted accordingly, to exclude the impact of sales to Drakes.
2. The previous supply agreement with 7-Eleven concluded on 17 August 2020. To enable comparison, sales in the comparative period have been adjusted accordingly, to exclude the impact of sales to 7-Eleven.

Inside new distribution centre in South Australia

CEO's Report continued

"Our Pillars have continued to benefit from the shift in consumer behaviour including the increased preference for local neighbourhood shopping, as well as the success of our MFuture program in improving the competitiveness of our independent retailers."

Hardware

Total Hardware sales, including charge-through sales, increased 24.7% to $2.6bn with significant growth in DIY and a return to growth in Trade sales. Total sales in the Independent Hardware Group, which excludes Total Tools, increased 17.9% (FY20: -1.3%).

Retail like-for-like sales in the IHG banner group increased 11.4% (FY20: -0.7%), with DIY sales up 25.1% and Trade sales up ~5%. The significant growth in DIY was underpinned by a shift in consumer behaviour to more home improvement projects, gardening and maintenance activity and the success of MFuture initiatives to further improve the competitiveness of the IHG retail network. Trade sales strengthened in the second half of the year supported by Government stimulus aimed at driving increased renovation activity.

The growth in higher margin DIY sales led to the sales mix changing to ~40% DIY and ~60% Trade (FY20: ~37% DIY and ~63% Trade).

Online sales were very strong, increasing 122% with Hardware's advanced digital capability helping optimise strong online demand. A further ~160,000 loyalty members were added in the year, with total loyalty members now more than 1.2m.

The Hardware pillar also continued to make good progress with its MFuture initiatives. There are now 130 IHG stores that have completed the Sapphire store upgrade program. These stores have historically reported sales growth after being upgraded of more than 15% p.a., and this year they continued to outperform non-Sapphire upgraded stores with average retail sales growth greater than 25%. Due to the success of the program we increased the target number of stores to be upgraded from 200 to 300 by 2025.

Hardware's 'Whole of House' initiative is expected to help further build on its leading position in the Trade segment. The business has now established national coverage from nine Frame and Truss sites and has alliances in place which ensures it is able to supply the key stages of a house build including Foundations, Frame and Truss, Lock Up, Fix and Fit Out. IHG's share of the supply component of a house build increased from ~30% to ~35% in FY21 and there is potential to grow this further.

The business continued to accelerate its investment in digital including its market leading Trade Technology, DIY eCommerce, Loyalty and Data Insights and Analytics. Customer uptake increased significantly in the year, partly reflecting the impact of COVID and the related lockdowns.

We are excited over the significant growth opportunities presented through the acquisition of Total Tools Holdings. The business has a history of strong growth, which has continued since our acquisition of a majority stake in September 2020. The acquisition of a further 15% in June 2021, together with the provision of loan facilities, is expected to help progress its growth plans including the addition of new sites and joint venture stores.

Cost management

Metcash has a history of delivering on its cost-out targets including achieving $125m of savings through the Working Smarter program which concluded in FY19, and ~$50m of savings over the first two years of the MFuture program. This year we launched project Horizon, aimed at driving further efficiencies through simplification, as well as growth through making it easier to do business with Metcash. In addition to these aims, the first stage of this program will also include a focus on Group technical infrastructure consolidation and replacement, process efficiency foundations and better alignment of our infrastructure across the business. The first stage of the project is expected to be completed in FY23.

Digital

While IHG and our newly acquired Total Tools business already have leading digital technology, digital has generally been a low priority for our Food and Liquor independent retailers until the onset of COVID. The acceleration of online sales and our eCommerce platforms in Food and Liquor last year has significantly increased interest from our retailers in digital solutions.

We estimate the digital opportunity for our retailers and Metcash is a very material ~$1bn, and with our retailers well positioned with the locations, customer base, strong well-known brands, infrastructure and scale, we believe now is the right time to invest and work with our retailers to deliver these solutions.

Proven off-the-shelf technologies are now available to lower development costs and increase the speed at which we can deliver these solutions. Importantly, the 'last mile' delivery cost hurdle for our retailers has now been removed with many new providers available, making online offers more competitive and economic. Metcash is now investing in Group-wide digital capability which is aligned to the work of our Pillars to expedite and enhance the delivery of digital solutions for our retailers.

Going forward

When releasing our FY21 results in June, we announced that there had been a strong start to FY22 with sales in our Food, Liquor and Hardware pillars in the first eight weeks continuing to be well above the same period in FY20, which is before the increase in demand related to COVID. Our Pillars have continued to benefit from the shift in consumer behaviour including the increased preference for local neighbourhood shopping, as well as the success of our MFuture program in improving the competitiveness of our independent retailers.

Our MFuture strategy focused on championing the success of our independent retailers through further improving their competitiveness continues to be the right one. You can find more detail on our MFuture plans going forward in the Pillar sections of this report.

Thanks

I would like to extend my sincere thanks to our independent retailers and suppliers, and the entire Metcash team and Board, for their support and encouragement throughout the year. I am very proud of the way that we have all continued to work together through another challenging but successful year to achieve our purpose of championing our independent retailers.

Jeff Adams
Group CEO

Financial Report

Re-focused strategic direction

Customer and Community

Easy to do business with

Shopper-led offer

Business partner of choice for suppliers

Lean, low cost operating model and supply chain

Increased retailer competitiveness driving shareholder value

MFuture

A five year program launched in 2019 aimed at providing a pathway to sustainable growth, balanced with cost efficiencies. Significant progress to date has provided a strong foundation for the remaining three years of the program.

Focus for next three years

Continue supporting our retailers to further improve their competitiveness and retain new and returned customers gained through COVID, as well as attract new shoppers.

Growth

- Store upgrade programs
- Store formats
- Ranging and pricing
- Private label
- Accelerating eCommerce
- System enhancement – Project Horizon

Costs

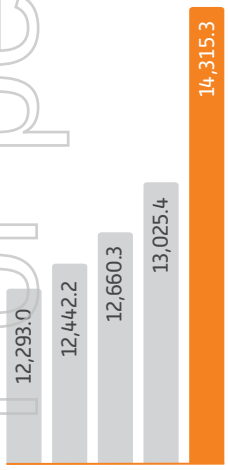
Pursuing attractive growth opportunities through leveraging recent acquisitions

Financial Highlights

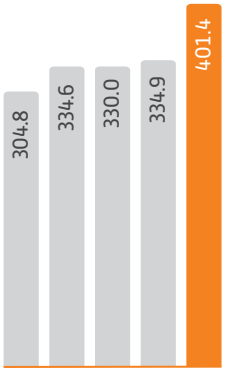
Five year review

Financial Performance	2021	2020	2019[1]	2018[1]	2017[1,2]
Reported sales revenue ($m)	**14,315.3**	13,025.4	12,660.3	12,442.2	12,293.0
Underlying EBIT ($m)	**401.4**	334.9	330.0	334.6	304.8
Finance costs, net ($m)	**(42.6)**	(52.0)	(28.9)	(26.4)	(33.6)
Underlying profit after tax ($m)	**252.7**	198.8	210.3	216.9	194.8
Reported profit/(loss) after tax ($m)	**239.0**	(56.8)	192.8	(148.2)	171.9
Operating cashflows ($m)	**475.5**	117.5	244.9	276.3	304.6
Cash realisation ratio (%)	**114%**	33%	92%	101%	118%
Financial Position					
Shareholders' equity ($m)	**1,291.1**	1,371.6	1,250.1	1,334.2	1,583.2
Net cash/(debt) ($m)	**124.6**	86.7	(42.9)	42.8	(80.8)
Gearing ratio (%)	**(10.7%)**	(6.7%)	3.3%	(3.2%)	4.7%
Return on funds employed (%)	**28.6%**	24.9%	27.7%	24.4%	19.0%
Share Statistics					
Fully paid ordinary shares	**1,022.4**	1,016.4	909.3	975.6	975.6
Weighted average ordinary shares	**1,021.9**	910.1	928.6	975.6	958.8
Underlying earnings per share (cents)	**24.7**	21.8	22.6	22.2	20.3
Reported earnings/(loss) per share (cents)	**23.4**	(6.2)	20.8	(15.2)	17.9
Dividends declared per share (cents)	**17.5**	12.5	13.5	13.0	4.5
Dividend payout ratio (%)	**71%**	57%	60%	59%	22%
Other Statistics					
Number of employees (full-time equivalents)	**7,010**	6,400	6,378	6,378	6,708

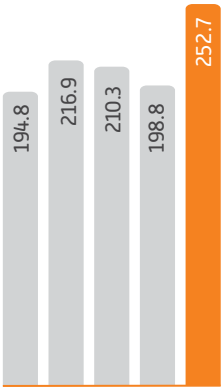
1. FY17 to FY19 financials are reported on a pre-AASB16 basis.
2. FY17 EBIT, profit after tax, shareholder's equity and EPS have not been adjusted to reflect AASB16.



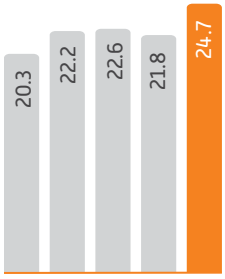
Sales ($m)



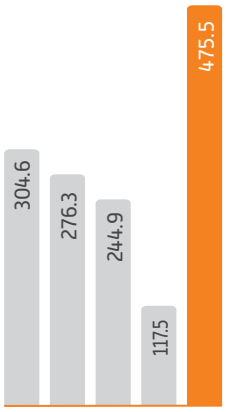
EBIT (Underlying) ($m)



PAT (Underlying) ($m)



EPS (Underlying) (cents)



Operating cashflows ($m)

A strong financial position

$252.7m
Underlying profit after tax

$401.4m
Group EBIT

17.5c
Total FY21 Dividends per share

$124.6m
Net cash position at year end

Scott Marshall
CEO, Metcash Food

Food

We are the largest supplier to independent supermarkets in Australia, with the widest distribution network and unmatched reach and delivery frequency.

We support over 1,600 stores including the well known IGA and Foodland brands, and are a significant supplier to large contract customers.

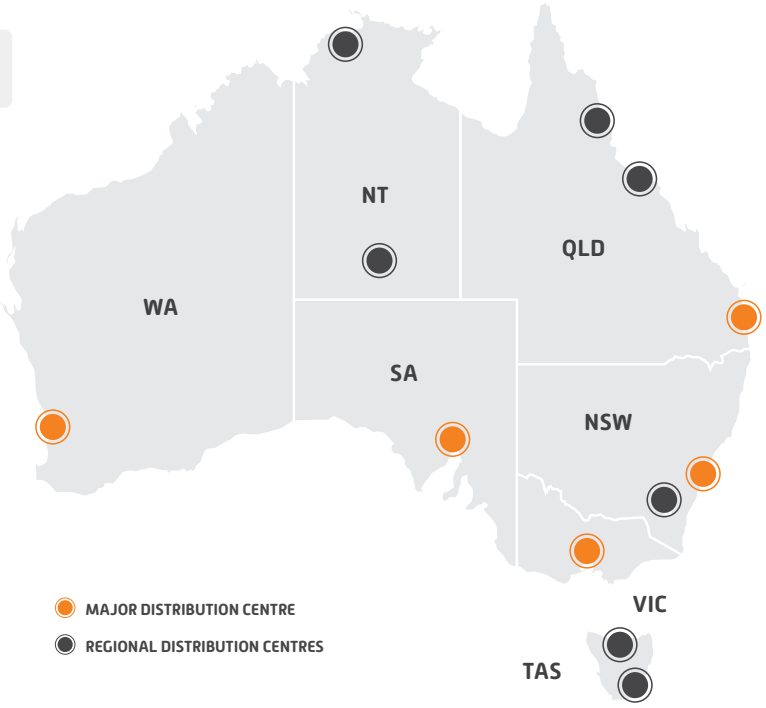
Our retailers are conveniently situated in local neighbourhoods and are known for being at the heart of the local community. A large proportion of our stores are located in regional and remote areas where we are often relied on as the only store in town.

The IGA network provides shoppers with a competitive offer across a broad range of products, that in many cases is perfectly tailored for local customers. Our stores are community focused with support provided to many local community groups through our Community Chest program together with other support from our retailers, and local suppliers and businesses through stocking locally sourced products.

Our Food pillar has distribution centres in each major capital city and in several regional locations. Our leading logistics and distribution capabilities ensure we have an efficient, flexible and responsive supply chain, and this underpins our position as a partner of choice for getting product to market. The strength and flexibility of our operations have been particularly evident through COVID with our business managing exceptionally well through unprecedented demand and supply chain challenges associated with lockdowns, border restrictions and other health regulations.

In Convenience, we support more than 90,000 customers nationwide. The businesses we support include restaurants, coffee shops, fresh food outlets as well as forecourt retail and local convenience stores.

IGA national distribution network



Food continued

A stronger foundation

A business reset in 2019 together with the early success of MFuture initiatives delivered positive momentum for the Food pillar leading into the onset of COVID in 2020 and the subsequent changes in consumer behaviour. Acceleration of our Diamond Store Accelerator (DSA) program and continued improvement in product ranges, prices and supply chain efficiency helped drive a return to underlying sales growth in supermarkets, lift retailer satisfaction scores to record highs and improve retailer relationships and trust.

The onset of COVID and related restrictions led to the acceleration of many shoppers rediscovering their local IGA stores and enjoying the improved quality and competitiveness of our store network. Our retailers have benefited from a shift in consumer behaviour including an increased preference for local neighbourhood shopping, more flexible working and eating at home, migration from cities to regional areas and an increased preference for branded products.

The improved competitiveness has helped retain new and returning customers, and our network is ideally positioned to continue benefiting from the shift in consumer behaviour.

Going forward

The remaining three years of our MFuture program focuses on further improving the competitiveness of our retailers and sales growth. Key components are our 'Network of the Future' program which includes refreshing the network with national brand standards and a more consistent offer by brand. It also includes a continuation of our DSA store upgrade program, new store formats, an expansion of our private and exclusive label range, and driving more value for shoppers through ensuring we continue to have a competitive core range and price position.

The second component focuses on eCommerce and Loyalty initiatives including the rollout of a next generation eCommerce platform and further enhancement of our loyalty program, IGA Rewards.

The remaining component is continuous improvement of our supply chain processes including investment in our systems, as well as leveraging our new Distribution Centre in South Australia which provides a greater range of products and increased efficiencies for our Foodland and IGA retailers in South Australia.

Network of the Future – new IGA brands

We are excited to be rolling out a new suite of brands and channel blueprint specifically tailored to target shopper preferences and improve their shopping experience. There is a brand for each of our retailers' needs with standards in place to ensure shoppers experience a consistent offer for each brand across each store in all States.

The new suite of brands has been agreed with our IGA retailers and includes utilising the existing IGA brand and the development of new non-IGA branding for those retailers that choose not to meet IGA brand standards. Supa Valu is a new brand developed for a larger footprint store with lower prices suited to specific locations and demographics. Two new stores under the Supa Valu banner opened this year, both being well received by the local communities where they are operating. We plan to have more of these stores in the coming years.

Supa Valu Ballina

In March 2021, the popular Ritchies Supa IGA in Ballina underwent a multi-million-dollar transformation and relaunched as Supa Valu Ballina.

The Supa Valu concept is part of IGA's new format trials and follows the launch of the Fresh Pantry brand in 2019. The opening of Supa Valu Ballina follows the successful launch of the first Supa Valu store in Doonside NSW in 2020.

The Supa Valu brand offers exceptional savings with low pricing across the entire store and bigger deals on pallet buys in the centre of the store. The store also offers convenient features such as in-store butchers as well as freshly made bakery products and sushi daily.

For the core of our network, we retained the valued IGA brand and added IGA Fine Foods branding to suit 'inspirational' stores in the network that are particularly appealing to 'foodies'. For our small format stores, we have the IGA Local Grocer and Fresh Pantry brands which will replace the IGA Xpress brand that is being phased out. Village Grocer will be the non-IGA alternate brand.

We expect the branding transition to be completed by 2024 supported by store upgrades facilitated through our DSA program.

Network of the Future – DSA store upgrade program

We have continued to work closely with our retailers to simplify our DSA program, and they have responded with accelerated demand for store upgrades and increased investment in their stores. The program provides a more modernised store and a better experience for shoppers, driving excellent returns for retailers and increased sales for Metcash.

There have been 622 store upgrades under the DSA program, generating on average retailer sales improvement of over 10%, excluding increased sales related to COVID. Around 45% of the network has been upgraded with some stores now going through their second refresh. We are targeting a further 100 to 130 store upgrades per year over the next five years, which will result in ~90% of the network being upgraded by FY26.

Next generation eCommerce platform

IGA Priority Shop was established in April 2020 in response to the need for those in the community who were vulnerable during the COVID lockdowns to get access to essential goods. This was followed by accelerating the rollout of IGA Shop Online, an online IGA shopping platform that can be accessed and utilised by all our retailers.

The success of both IGA Priority Shop and IGA Shop Online together with increased interest from our retailers for digital solutions led to further development to deliver a next generation eCommerce platform for the IGA network. New features provide a more personalised experience for shoppers and include a sophisticated in-store order fulfilment solution with a store-specific picking app. Importantly, the 'last mile' delivery cost hurdle for our retailers has now been removed with many new providers available, making online offers more competitive and economic. Trials of this next generation platform commenced towards the end of FY21 and we are looking to roll this platform out to ~800 of our IGA stores by FY25.

IGA Rewards loyalty program

Our IGA Rewards loyalty program enables retailers to better compete and communicate with their customers on a personalised basis using actual in-store shopping behaviour and preferences. The program has been successfully trialled in Western Australia and Queensland and is live in ~200 stores, with further rollout across the network underway.

A number of our retailers operate their own loyalty programs and IGA Rewards is complementary to these offers with our trials showing it drives higher store visit frequency and increased spending by members compared with non-members.

South Everleigh IGA

In early 2021 the Romeo family opened a one-of-a-kind IGA store located in the heart of Sydney's new South Eveleigh precinct. The state-of-the-art concept introduces an extensive takeaway dining menu with a popular in-store pizza oven and a served carvery. The ~1,200sqm store offers an in-house fishmonger, butcher servery, in-store sushi chefs, a walk-in cheese room with a selection of the world's finest gourmet cheeses and a huge range of fresh local fruit and vegetables. The store also offers niche products from many local and international producers including fresh Australian flowers and gourmet produce.

Liquor

In Liquor, we are the second-largest player in the market, supplying ~90% of independent liquor stores in Australia. Our Independent Brands Australia (IBA) network is home to a number of successful national brands including IGA Liquor, Bottle-O and Cellarbrations.

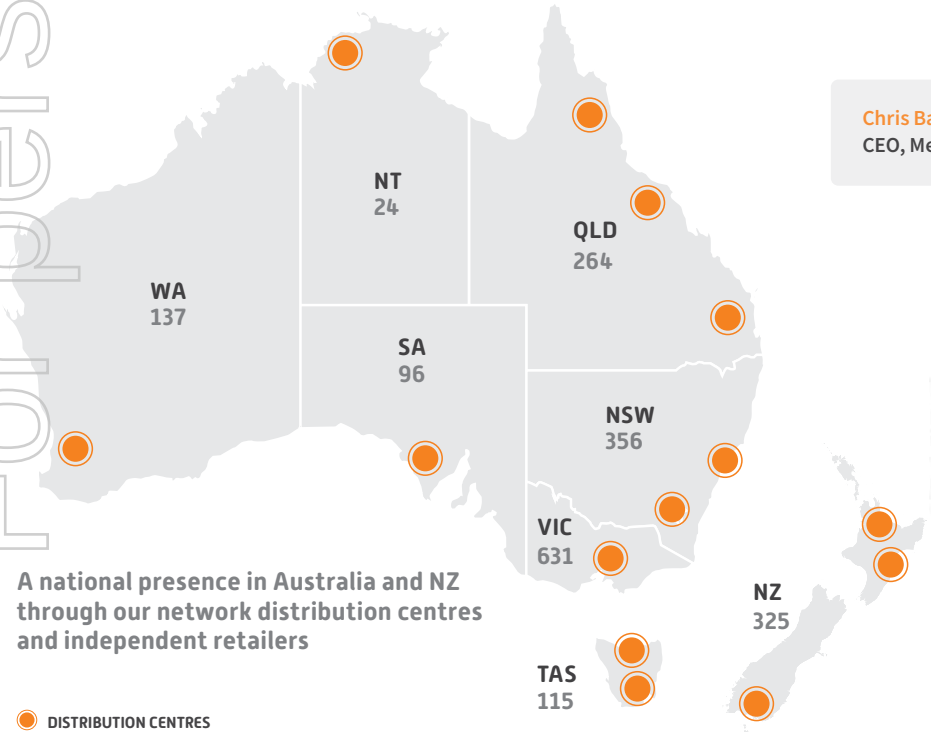
The IBA retail network consists of ~1,950 tier one bannered stores across Australia and New Zealand. IBA supports these retailers through its national buying capacity, marketing support, promotional programs, a portfolio of Owned and Exclusive brands and network investment to provide the 'Best Store in Town'.

The differentiated position of our IBA retailers includes being positioned conveniently in local neighbourhoods, with local product ranges tailored to each location and community, and bespoke promotional programs.

We also supply over 12,000 liquor customers through our Australian Liquor Marketers (ALM) division which includes supply agreements with large and small contract banner groups, un-bannered liquor stores, 'on-premise' and eCommerce retailers.

Chris Baddock
CEO, Metcash Liquor

IBA network of tier one stores



A national presence in Australia and NZ through our network distribution centres and independent retailers

DISTRIBUTION CENTRES
Stores numbers as at Oct 20

Footprint


Cellarbrations
Craft Beer
Craft Beer
Imported Beer
Cool Room
Self Service
Cool Room

Liquor continued

Shift in shopper behaviour

The Liquor pillar has experienced strong sales growth in the IBA network and with ALM contract customers, through the shift in shopper behaviour related to COVID and the increased competitiveness of stores. Underpinning this shift is an increased preference for local shopping, home consumption substituting 'on-premise' consumption, migration from cities to regional areas (where our retailers are well represented), and less overseas travel and duty-free shopping.

Our 'on-premise' customers have been adversely impacted through rolling lockdowns and restrictions in Australia and New Zealand related to COVID. Metcash provided support to these customers by enabling stock to be returned and through facilitating payment plans and re-opening deals. Pleasingly, these initiatives have helped strengthen relationships and loyalty with our customers and attracted new 'on-premise' customers to the business.

Sales to our retail bottle shop customers continued to be strong in the second half of FY21 despite a recovery in 'on-premise' sales.

MFuture program

Our focus continues to be on further improving the competitiveness and success of our independent retailers to help them retain shoppers gained through COVID and to add new customers. Our initiatives to drive this under the MFuture program centre on digital transformation including eCommerce and Loyalty, Owned and Exclusive brands – including leveraging our recent acquisition of the Kollaras portfolio of brands, supply chain flexibility and efficiency, and driving brand awareness and appeal.

Digital transformation

Like our retailers in the Food pillar, the level of interest and support from our Liquor retailers in relation to eCommerce solutions rose significantly post the onset of COVID. The business accelerated the trial of its Shop My Local marketplace with Click & Collect and Click & Deliver options available. This was followed by the trial of a Cellarbrations branded online offer in Victoria with learnings from both trials resulting in the business moving forward on a branded eCommerce solution which is currently being worked through with retailers.

The Liquor eCommerce channel is a largely untapped one for both our retailers and Metcash. The size of the opportunity is large at ~$1.3bn, and we look forward to rolling out our branded eCommerce solution across the network.

We are also working with our retailers to design an appropriate banner-led Loyalty solution, with the expectation that we'll be ready to launch the program by the end of FY22.

A key enabler of our new eCommerce and Loyalty programs is our point of sale integration project. We expect the majority of our IBA network to be integrated with the system by late 2021, leading to an enhanced experience for shoppers and a significant increase in the average eCommerce basket size.

Cellarbrations Glenorie

Cellarbrations in Glenorie, NSW opened less than two years ago and is already extremely popular with the local community. It is owner Alan Reuben's fourth consecutive store with the brand and in each of his locations, he prides himself on getting to know the local community and ordering in special lines tailored to customer taste. Located in a semi-rural area, the large parking area in the back of the store makes it accessible for his customers who often visit with their horse floats, trucks and trailers in tow. Inside, the store has a wide range on offer, from craft beers to an extensive spirit selection as well as well-stocked wine shelves. Alan even offers gas swaps and firewood in response to local demand.

Owned and Exclusive labels

Our IBA network has historically under-indexed in the Owned and Exclusive labels category, which presents an opportunity for both sales and margin growth for our retailers.

We are targeting wholesale sales of Owned and Exclusive brands growing to ~5% of total IBA sales by 2024, which represents an additional ~$100m of sales. Our recent acquisition of the Kollaras private label portfolio will help drive this growth, adding quality and value for shoppers and increasing the number of shoppers visiting our retailers' stores.

We now have 26 owned and 35 exclusive label brands, with our initial focus on substantial growth opportunities identified in the wine category. The value beer category is also of interest in our early growth plans, as it is a driver of increasing the number of shoppers coming into our IBA stores.

Supply chain flexibility and efficiency

Delivering greater choice and increasing efficiencies for our retailers is key to further improving their competitiveness. We are partnering with our suppliers to generate operational efficiencies through simplifying processes and freeing up our retailers' time to look after their customers. We are also working with suppliers to lower supply chain costs to ensure our retailers can purchase at the lowest possible prices.

Our initiatives include further evolving our supply chain capability to support efficiency improvements through introducing 'One Delivery, One Invoice' for our retailers. We will also be introducing 'Endless Aisle' product access through cross dock and charge-through functionality to provide flexibility for meeting changes in product category consumption trends.

Brand awareness and appeal

Driving brand clarity for shoppers is an important driver of sales, and achieves cost efficiencies through reduced marketing spend. We have a five-pronged strategy to improve clarity and deliver these improvements. These comprise: humanising our brands – including highlighting our role in local communities; positioning our brands to drive differentiation for our retailers; balancing our marketing with short-term price/promotion and long-term brand building; communicating one message through multiple touch points; and smarter buying and mix of media spend.

Customers should expect to see a notable change in how we promote and build awareness of our brands and what they stand for.

Independent Hardware

Hardware

In Hardware, we are the second-largest player in the Australian hardware market with a track record of successful acquisitions.

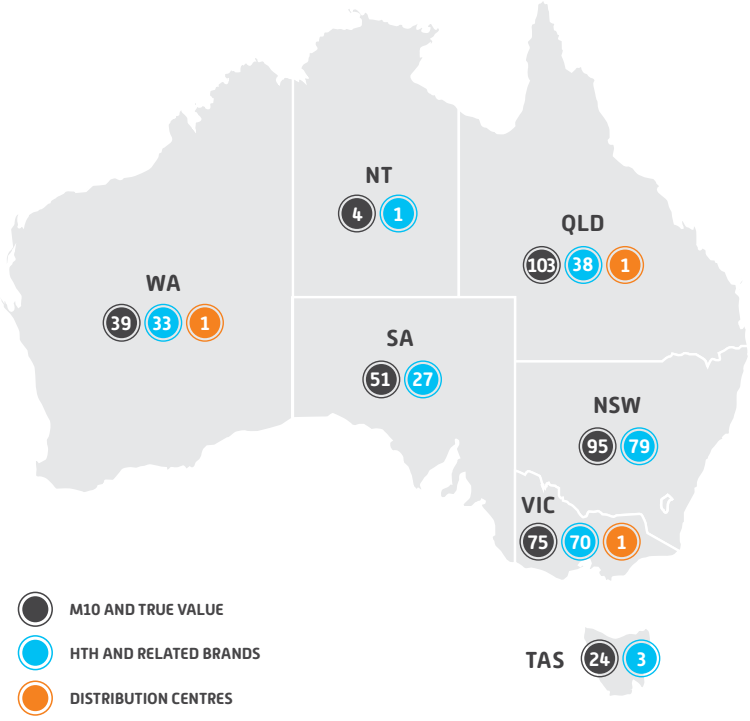
Our Independent Hardware Group (IHG) is a leader in Trade with a solid track record of servicing the DIY market. IHG is home to the well-known Mitre 10 brand, as well as the Home Timber & Hardware brand following our acquisition of the business in 2016. Our Hardware pillar was expanded in September last year with the acquisition of a majority stake in Total Tools Holdings, franchisor to the largest professional tools market in Australia. This has taken the combined IHG and Total Tools network to ~730 stores located in metro and regional areas across the country with sales of over $3.5bn.

The Hardware pillar performed extremely well in FY21 with very strong DIY sales and a return to growth in Trade. COVID-related restrictions, including lockdowns, drove increased consumer interest in DIY, with many shoppers rediscovering their local hardware store. The strong sales growth was particularly evident in product categories such as paint, garden, outdoor and power tools.

The strong growth in DIY, and the retention of many of the shoppers that chose to revisit their local hardware store during COVID, reinforces the improved competitiveness of our stores. Driving this improvement has been the success of our MFuture initiatives including the Sapphire store upgrade program.

Annette Welsh
CEO, Independent Hardware Group

IHG national network of stores



Hardware continued

Strategic focus

Our focus over the remaining three years of the MFuture program centres on further building our position in Trade, growing DIY and being a low-cost leading hardware wholesaler with retail experience.

Our key growth initiatives include the acceleration of our Sapphire store upgrade program, our 'Whole of House' strategy aimed at increasing our share of the supply component of building a house, and the acceleration of our leading digital capability.

Sapphire store upgrade program

The successful Sapphire program has been designed predominantly to grow our DIY business with a strong focus on store refurbishments. Our objective is to ensure stores across the IHG network are leading edge and tailored to each store's unique location and the local community it serves. This includes having the right product categories to engage and support local shoppers with a strong DIY range and service offer.

Late last year we celebrated a milestone for the program with completion of our 100th Sapphire Store upgrade. By the end of FY21, we had completed 130 Sapphire store upgrades, which is an outstanding result given the additional COVID-related challenges in the year for both our Hardware team and IHG retailers.

Our original target was to have 200 stores upgraded by 2022, however the success of the program and the resurgence in DIY from the home consumer has led to a significant increase in demand from retailers to upgrade their stores. We are now targeting to have 300 stores upgraded by 2025.

The Sapphire store program has delivered strong returns for our retailers since its inception. Average retail sales growth following stores being upgraded through the program has been greater than 17% p.a., which increased to over 25% in FY21 reflecting the impact of COVID on DIY sales.

Whole of House

The 'Whole of House' strategy is focused on building our leading position in the Trade segment through expanding our range and offer to ensure we are able to supply the vast majority of components used in the building of a house.

This presents a significant growth opportunity for IHG as currently we supply ~35% of what a builder requires to build a house. By expanding our range and offer we believe there is an opportunity to significantly increase this, creating growth for our own business while helping deliver efficiencies and savings for our customers and adding value for the builder.

We have developed a dedicated sales team to work closely with our customers and have alliances in place to ensure that our supply offer includes the key components of a house build including Foundations, Frame and Truss, Lock Up, Fix and Fit Out. We are developing a new showroom concept (Design 10) that displays the many category options that IHG can supply including kitchens, appliances and laundry products to ensure builders and their customers are provided with a 'Whole of House' offer.

Leading digital capability

IHG has for several years invested in and developed a digital platform which has seen customer uptake grow strongly. This has helped 'future-proof' the Trade business and grow DIY, with leading initiatives such as Click 'N' Collect and Click 'N' Deliver enhancing our retailers' competitive position. The benefit of our investment in digital platforms was particularly evident during the recent COVID lockdown periods, which saw many new customers utilise our digital platform.

Our website traffic in FY21 has seen up to 1.2m visitors per month, an increase of ~70% on the prior year. Online sales increased 122% with the number of transactions and units sold online up significantly, giving us confidence to continue accelerating the investment in our digital platform and offer.

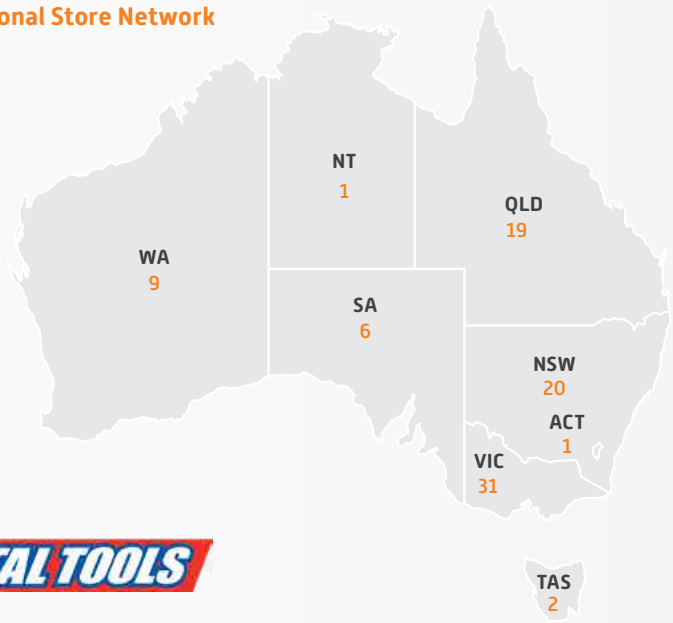
Harnessing our digital technology, including the use of data, analytics and insight information, as well as loyalty and customer insights, enables our retailers to make the best decisions for their businesses and their stores. Our accelerated investment in digital, especially in the execution of our Trade technology, will enable us to enhance this service to our retailers and their customers, helping them to manage more effective and efficient businesses.

Sunlite Mitre 10 Paddington

Sunlite Mitre 10 first opened in Paddington, Sydney in 2015. The success of the store and the Sunlite Group more broadly resulted in owner Steven Czeiger embarking on his sixth Sapphire transformation project in 2021. Steven took the opportunity to expand into the next-door building, doubling the store's footprint. The increased space has provided the ability to offer a leading garden décor and green life space as well as a new trade area. Conveniently located on the high street the store is now home to three floors of hardware retail.

Paul Dumbrell
CEO Total Tools Holdings

Total Tools National Store Network



Total Tools

We were excited to announce, in September 2020, the acquisition of a majority stake in Total Tools Holdings (TTH), the franchisor to the largest professional tools network in Australia with ~90 bannered stores across Australia.

The Total Tools business has been built by franchisees and has operated for over 30 years. Starting out as a buying group of eight stores, the business has grown to now be the number one professional tools business in Australia. It is a complementary business to IHG, targeting tradies that use professional tools for a living with an unrivalled range of the best professional brands in the world, together with professional service solutions and advice. It is the retailer of choice for major tool suppliers and has long-term relationships with major tool suppliers such as Milwaukee, Makita and DeWalt to name a few.

Total Tools has a very loyal customer base with its Insider Rewards loyalty program having over 1.2m members, representing more than 86% of its sales base (excluding commercial).

Its large format stores have, on average, around 10,000 product lines with modern store layouts and eye-catching signage for easy customer navigation.

Like IHG, Total Tools has a store upgrade program to further enhance customer experience, with 64 stores completed to date. Average store growth post refurbishment has been on average >15%, and it expects to refurbish a further 24 stores over the next three years.

Total Tools has significant growth opportunities through the expansion of its store network and the acquisition of an ownership interest in a select number of stores. The store growth program was well underway at the time of our acquisition, with plans to open eight to 10 new stores each year with a target network size of 130 stores by 2025. The acquisition by Metcash provides Total Tools with funds to support the store expansion program, as well as the expertise in running joint venture and company-owned stores. Total Tools acquired a majority interest in 12 joint venture stores in December 2020 and there are plans in place to convert more franchisee stores to joint venture stores over the next three years.

Total Tools has a history of strong performance, and this continued in FY21 post the acquisition. In June 2021, Metcash announced that it had increased its holding in Total Tools from 70% to 85%, and it has a pathway to full ownership by the end of FY24.

Sustainability Report

1. HIGHLIGHTS

Greenhouse Gas EMISSIONS REDUCED
▼14%

Waste to landfill
▼REDUCED 11%

Business2Business plastic wrapping reduced by
▼100t p.a.

Gender PAY GAP
▼1%

DONATIONS OF
850,000
meals to food rescue organisations

Metcash people engagement survey
▲SCORE UP
~20%

Donations
to local community ORGANISATIONS
~$3m via IGA Community Chest

2030
aligned Science-Based Target ▼42% reduction IN GHG EMISSIONS

Awards - WGEA Employer of Choice, Mental Health Australia, FlexReady

2025
target set for 100% reusable, recyclable or compostable packaging

2. MESSAGE FROM GROUP CEO

I would like to welcome you to our first annual Sustainability Report. This new format report replaces our previous practice of having a more abbreviated Corporate Social Responsibility section in the Annual Report.

Metcash has always prided itself on being a responsible business, and we acknowledge that this responsibility extends to all our stakeholders, including investors, customers, suppliers, retail partners and the community. Together with our network of independent retailers, we are committed to doing our part to create a sustainable future for ourselves and for future generations. Our team members want to be inspired to work for a business that looks after its people and the environment, and our customers expect that the products we offer are sourced sustainably and responsibly.

As a reflection of our commitment, this year we embedded sustainability into our corporate vision; and we are continuing to work on further integrating sustainability into all aspects of our business including targets, metrics and transparency.

FY21 included significantly increasing the number of sustainability projects across the organisation, and I am pleased with how much we achieved despite the additional time requirements and challenges associated with COVID. Some notable achievements included further reducing our carbon footprint and waste to landfill, becoming a signatory to the Food and Grocery Code of Conduct, the setting of a 2030 science-based emissions reduction target, materially improving our employee engagement score and further progress on people initiatives which led to receiving a number of prestigious employer awards and citations.

Metcash and our independent retailers are well known for supporting local communities and this year was no exception with over $3m being donated to ~1,450 local organisations through our Community Chest Program, which is in addition to the donations many of our retailers make in their local communities.

From a reporting perspective, this year's Sustainability Report represents the first step in our roadmap to a more holistic approach to sustainability reporting. Going forward, we expect to be able to report in alignment with the Global Reporting Initiative (GRI) by 2023.

Further information on our sustainability initiatives and achievements this year is detailed in the following report. I trust you find it informative.

Jeff Adams
Group CEO

3. OUR PEOPLE

Diversity and inclusion

To fulfil our purpose of Championing Successful Independents and becoming 'A Favourite Place to Work', we recognise that our people are our most valued asset, with belonging and inclusion fundamental to our culture and core values. We recognise that each person has unique strengths and that high performance is underpinned by embracing those strengths.

We maintain an unwavering focus on building and supporting a diverse and inclusive culture to better serve our communities and customers. We promote an environment where our people feel safe, recognised, valued and able to bring their most authentic selves to work.

We are committed to championing and achieving diversity awareness, gender equality, gender pay equity, promotion and leadership support, flexible working as well as policies and initiatives that support all people across the organisation.

We all have a part to play in promoting diversity and belonging, supporting equal opportunity and respecting others. We have no tolerance for unlawful discrimination, bullying, harassment or victimisation which includes having no tolerance of gender-based harassment and discrimination, sexual harassment and bullying.

We regularly analyse and report gender pay statistics to the People and Culture Committee, with a firm commitment from the Board to address like-for-like salary gaps via the dedicated gender pay equity budget, in addition to the annual Pay Review. We analyse commencement salaries by gender to ensure there are no pay gaps at the beginning of the employee life cycle and consciously consider promotion salary adjustments to mindfully manage pay parity. We conduct a final review of pay equality as part of our annual remuneration review to avoid any unconscious bias in pay decisions.

By investing in our leadership and developing constructive and mindful leaders, we build leadership capability and leaders who role model our Metcash expectations of behaviour in relation to a culture of inclusion. We overlay this with a regular review of our talent pipeline in relation to gender split to enable diversity of thought. Our talent acceleration programs are designed to strengthen the talent pipeline and provide mentoring support for all team members with mentors of any gender.

A range of programs have been implemented over recent years to support diversity and enhance inclusion in our workplace. These include:

- Promotion and leadership support of flexible working arrangements, including start/finish times, shift options, job sharing and working from home
- Closing the gender pay gap to ~1%
- Establishing a Diversity and Inclusion Council and championing gender equality across the business
- Tailored parental leave policies for all genders to support births, stillbirths, surrogacy and adoption
- A campaign to attract a full range of candidates to traditionally male-dominated roles such as logistics
- Group CEO being a Gender Pay Equity Ambassador with the Workplace Gender Equality Agency (WGEA)
- A commitment to leadership development and acceleration with programs in place for our top 500 leaders, including covering inclusivity
- Modification of any language that research has indicated will deter a full range of candidates from applying for positions

This year Metcash received its third consecutive Employer of Choice citation from the Workplace Gender Equality Agency, reflecting our commitment to our people, our purpose and our vision.

We believe there is much to be proud of in how Metcash has addressed, and continues to commit to, diversity, inclusion, gender equality, gender pay equity and balance for all employees.

Metcash Careers Ambassadors

Eric Feng
Financial Controller, Metcash Liquor

Lindy Belleza
Service Delivery and Operations Specialist, Metcash Food

Sustainability Report continued

Culture and engagement

Our aim in employee engagement is to achieve continuous improvement. We measure employee engagement annually using the 'Say, Stay and Strive' model which outlines how much our employees advocate for us as an employer, their willingness to remain with us and their willingness to put in discretionary effort to get the job done. We measure six engagement questions, 45 experience questions, three WGEA (Workplace Gender Equality Agency) and five open-ended questions.

All of our team members are provided with the opportunity to complete the survey and provide honest, anonymous feedback. This year, all Pillars and functions were represented in the 4,595 people having their say (~80% of our people). Our overall engagement score for FY21 improved ~20% to 57% and despite challenging work conditions, a number of our teams recorded scores in the ANZ top quartile.

Health and safety

While we are passionate about supporting successful independents, we are just as passionate about health and safety and the role we all have in creating safe and healthy workplaces. We believe that how we perform our daily tasks can affect not just our own safety, but also the safety of those around us.

Safety culture

Our actions and the way we do things shape the safety culture of Metcash as an organisation.

We remain committed to the continuous reinforcement of zero harm, which includes preventing work-related injury and illness for employees, visitors, contractors and members of the public, as well as zero harm in relation to pollution in our community. Our SaferMe and SaferMetcash programs acknowledge the role that each of us can play in preventing workplace incidents and injury.

Lead indicators

Targets for lead indicator activities have been set at all levels including safety engagement conversations, safety communications, safety workplace inspections, hazard reporting and rectification. Pleasingly, our lead indicator metrics all trended positively in FY21 with metrics exceeding targets by 29% for safety engagement conversations, 95% for safety communications, 57% for safety inspections and 56% for hazards reported.

Initiatives

We continue to invest in wearable technologies at 10 pilot sites to drive a reduction in the risk of manual handling causing injuries to our team members. This technology has assisted a number of sites to identify manual handling injury risks. The pilot is being expanded in FY22 to an additional two sites for further evaluation.

Significant work was undertaken in the year to reduce our transport safety and chain of responsibility (COR) risks. This included investing in new infrastructure and the replacement of a weighbridge at our Laverton, Victoria Distribution Centre. The investment has delivered improved efficiencies and compliance in using the weighbridges, with trucks no longer needing to stop for their weigh ticket.

We continued to have a strong focus on pedestrian and mobile plant/vehicle interactions, which historically have been high risk areas. This year included investing in a pilot for wearable sensor technologies to improve separation of forklifts and delivery drivers, and the installation of state-of-the-art segregation technologies in our new Distribution Centre's in South Australia and Berrinba in Queensland.

Total Reportable Injury Frequency Rate (TRIFR)

Our key safety measure of TRIFR was slightly above the prior year at 27.1 (FY20: 26.8) reflecting increased complexity associated with the impacts of COVID and the cycling of higher labour hours. The significant efforts of our safety team over the past four years are reflected in a ~30% reduction in the TRIFR measure. Plans are in place to further improve our safety performance in FY22.

COVID-Safe

Metcash continues to work closely with all levels of government in putting COVID-Safe plans in place at all of our sites, and regularly reviews and updates procedures in line with public health orders. Our focus on ensuring our essential workers remain safe at work has varied during the year depending on the level of risk, but included:

- Implementing COVID-Safe into pre-shift checklists and procedures
- Increased cleaning for our high touch surfaces
- Hand sanitiser stations in our workplaces and stores
- Temperature checking
- Physical distancing measures implemented in our indoor areas such as meeting rooms, offices and canteens
- Creating shift bubbles to reduce exposure
- Implementing face mask protocols where mask wearing became mandatory
- Adapting quickly to safely support our team members who could continue working from home, including ergonomic considerations

Regular communication with our people has focused on encouraging them to follow protocols, including providing information on hygiene, physical distancing, staying at home and getting tested if unwell and providing wellbeing support. Our safety team has done an extraordinary job by also providing additional safety, health and wellbeing support to our independent retailers when needed.

Health and wellbeing

To help our team members thrive, we have a best-in-class holistic health and wellbeing program, HealthMet. The pillars of the program aim to meet the health needs of our team by supporting physical health, mental health, financial health and community purpose. Together, the program helps our people bring their best self to work by learning healthy habits to get healthy and stay healthy.

Metcash encourages and provides flexible working practices, onsite gyms, online gym classes and partnerships with over 400 gyms and studios across Australia so that our team members can continue to be active.

Our people can access mental health support around the clock no matter where they are. A new partnership was established with Benestar, specialists in employee physical, social and psychological wellbeing. Results to date have been very positive with improved utilisation of the proactive support structures. We also extended this support to our independent retail network.

More than 3% of our workforce has become, or is in the process of becoming, Mental Health Accredited. A further 5% of our people are participating in the Metcash Mental Health Program. These initiatives helped Metcash be awarded Gold Accreditation by Mental Health Australia.

4. OUR PLANET

Energy and emissions

Metcash defines its operational boundary for the purposes of calculating Scope 1 and 2 emissions as being any entity in which Metcash or its subsidiaries have operational control, as defined by the operating policies test under the National Greenhouse and Energy Reporting Act 2007.

Metcash has 92 facilities over which it has operational control. These include:

- Distribution Centres (5)
- Independent Hardware Group (42)
- Metcash Food (28)
- Australian Liquor Marketers (16)
- Corporate (1)

We calculate our GHG emissions using the Greenhouse Gas Protocol and annually submit an Emissions and Energy Report to the Clean Energy Regulator. Total emissions reported under National Greenhouse and Energy Reporting System (NGERS) in FY21 were 72,948 tonnes CO^2-e, which represents a 14% reduction on the prior year (FY20: 85,433 tonnes CO^2-e).

Emissions reported under NGERS in FY22 will incorporate sites related to Total Tools Holdings and Total Tools joint venture stores following their acquisition in FY21.

Total fuel consumption from non-renewable sources was 412,551 GJ. Grid electricity use, our largest source of emissions, reduced 11% to 84,244 MWH in FY21 from 89,356 MWH in FY20 (as reported under NGERS). Going forward, we intend to also report our emissions using a GHG intensity per square metre of floorspace under operational control measure. We will also be adopting processes to calculate our Scope 3 emissions, recognising that a significant proportion of our climate change impact stems from these emissions.

Emissions targets

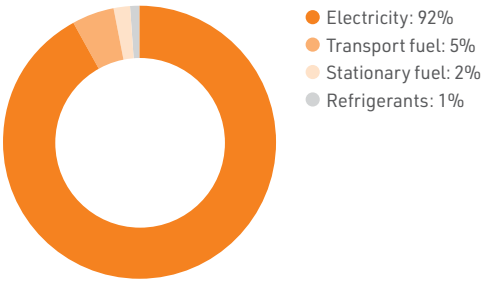
In FY20, Metcash set a target of a further 10% reduction in emissions by FY25. Having exceeded this target in FY21, work was undertaken to establish a 2030 science-based emissions reduction target.

Metcash supports Australia's commitment to the Paris Agreement, limiting global warming to 2 degrees above pre-industrial levels. As part of this commitment, we investigated both a 1.5 degree and a below 2 degree warming scenario for our own operations and determined a baseline GHG emissions inventory using data collected from our National Greenhouse Gas Reporting. The July 2019 to June 2020 NGERS emissions levels were chosen as the baseline year, as this period is more in line with our normal business activities and largely outside the influence of the COVID pandemic. A forecast was then made as to the 'business-as-usual GHG trajectory' of existing sites and operations out to 2030.

This work included a review of our reported emission sources, being electricity, stationary fuels (natural gas, LPG and diesel), transport fuels (diesel, ethanol E10, LPG and petrol) and refrigerant gases.

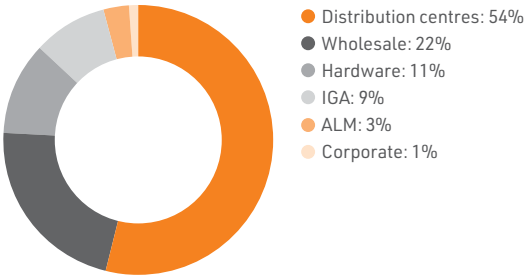
Our emissions profile

GHG emissions by type (tCO^2-e,%)



Electricity consumption is by far the largest source of Metcash's emissions, and therefore the main area of focus for emission reduction opportunities. Distribution centres account for more than half of Metcash's total electricity consumption.

*Electricity consumption (%) by division**



*Includes:

- Distribution Centres: Capital City Food and Liquor DCs
- Wholesale: Campbells
- IGA: Supermarkets + Food operations
- Hardware: Hardware DCs + Mitre 10 + HTH + Total Tools
- ALM (including regional DCs)
- Corporate offices

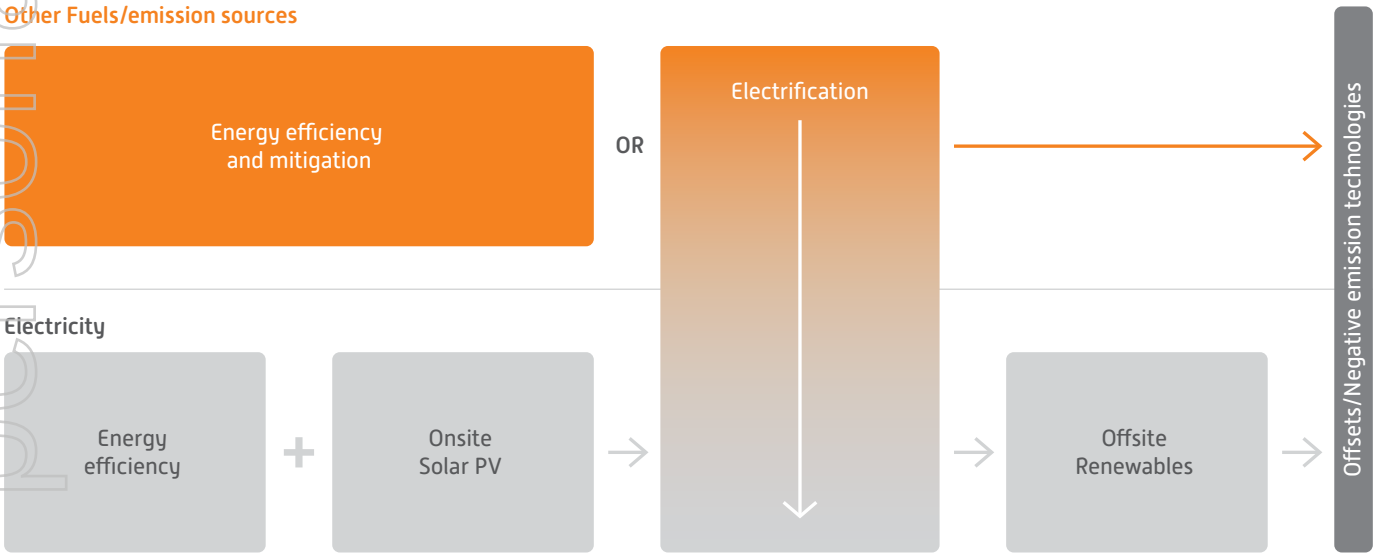
Sustainability Report continued

Subsequent to the scenario modelling, Metcash adopted a 1.5-degree warming scenario target, resulting in 42% emissions reduction by 2030. Metcash also developed an interactive net zero pathway tool to be used in determining the appropriate blend of emissions reduction opportunities, such as energy efficiency, renewable energy and carbon abatement, required to reach the 2030 goal. Reduction opportunities are ranked based on achievability and return on investment.

Identified emissions reduction opportunities include:

- Onsite Solar PV
- Refrigeration system optimisation
- LED retrofits at some remaining sites
- Lighting control opportunities including lux sensor and occupancy sensor control
- High-GWP refrigerant phase out
- Natural gas elimination through electrification
- Further forklift electrification
- Improved batteries and battery charging technology for electric forklifts
- Energy sub-metering
- Offsite renewables (via PPAs)
- Offsets

Net zero pathways for various emission sources



In December 2020, Metcash opened its new distribution centre in Gepps Cross, South Australia replacing the Kidman Park, South Australia warehouse. Metcash worked closely with the landlord, Charter Hall, to ensure the new facility obtained a 5 Star Green Star Design As-Built rating. In addition to a 1MW solar PV installation, which abates 645 tonnes CO2e per annum, the facility has extensive natural ventilation and light, end of trip facilities and wellness spaces. Metcash is committed to operating the facility in line with Green Star requirements, harvesting and utilising rainwater and ensuring at least 50% of all site generated waste is diverted from landfill.

Climate risk

As Australia's leading wholesaler and distributor we play a key role in supplying and supporting a large network of independent retailers across Australia. While we were not significantly impacted by flooding events in regional New South Wales, cyclones in Queensland and bushfires in multiple States, we recognise the potential impacts climate change could have on our supply chain and our ability to service our customers. We support the decarbonisation of our industry and building the resilience of our business to adapt to a changing economy and physical environment.

How we manage climate change

Governance

Establishing an appropriate governance structure is a pre-requisite for embedding environmental, social and governance (ESG) factors throughout Metcash. Our ESG Council will have accountability and responsibility for reporting on and implementing climate change initiatives at Metcash, as illustrated in the governance structure below. The ESG Council will prepare a dashboard of progress against its initiatives together with other relevant reporting data for regular presentation to the Group Leadership Team (GLT) and the Board.

The newly formed ESG Council will comprise representatives from all Pillars across key functions of the business, including corporate responsibility, strategy, merchandise, marketing, risk, property, logistics, finance, people and culture and health and safety. The Council is chaired by the Group CEO.

Strategy

The Metcash Climate Risk and Opportunities Register was established in FY20 as part of our program to assess the impact of climate change on our business. The program included a qualitative analysis of the likelihood and consequence of climate risks and opportunities in our value chain in alignment with Metcash's Enterprise Risk Management matrix. In line with the Intergovernmental Panel on Climate Change (IPCC) for a medium-term time horizon of 2030, two climate scenarios were used for this analysis as follows:

IPCC Representative Concentration Pathway (RCP)	Global warming scenario	Description
2.6	1.5°C warming	Ambitious mitigation with a peak in emissions around 2020, followed by a rapid decline.
8.5	4.3°C warming	Minimal mitigation with a continuous rapid rise in emissions.

The highest risk found was an increase in the frequency and severity of acute physical climate change events which will likely result in rising insurance premiums, leading to increased operating expenditures over the short (1-3 years) and medium (3-10 years) term. In FY21, insurance premiums increased partly due to the cost of catastrophe claims across the insurance market. No transition risks were assessed as high risk due to our efforts in managing our carbon footprint.

Additional steps in our climate risk response included:

- A 'deep dive' into the impact of a 1.5°C and 4.3°C scenario on our physical assets based on our emissions and energy use. This will include the development of climate risk mitigation plans for all key physical assets
- Discussions with our landlords on their climate engagement plans
- Commissioning of solar panels at our new Greenstar facility in South Australia

To further enhance our understanding of key risks and opportunities, we will be undertaking quantitative scenario analysis and modelling. This is expected to build on the scenario analysis conducted in FY20 to qualitatively inform our strategy at a high level. Management of the key risks and opportunities identified will be translated into operational plans.

Risk management

Our Group Risk and Assurance team facilitates the process for identifying and assessing Metcash's risk profile, focusing primarily on those strategic and operational risks that are most important for Metcash. Strategic risks are typically considered over longer time horizons, while operational risks are considered with shorter (1-10 year) time horizons.

In our Climate Change Risk and Opportunity Register, inherent physical and transition climate risks and opportunities are classified on a scale from very low to extreme and are scored using the multiplication of consequence and likelihood ratings. As we are in the preliminary stages of embedding the climate risk and assessment process into our strategic and operational risk assessment process, the climate-related risks identified in our Climate Change Risk and Opportunity Register have not yet been integrated into our existing risk management systems and tools. This is planned to be incorporated and reviewed by the Board in FY22.

Climate-specific risks and opportunities will be reviewed and updated on an annual basis using the time horizons of short-term (1-3 years), medium-term (3-10 years) and long-term (10-25 years).

Measuring our key climate risks will continue to be a complex and challenging task. While increased insurance premiums will likely have the highest impact on Metcash, there is currently no publicly available predictive tool for isolating the impact of climate change. We will continue to appraise and determine further metrics for assessing, monitoring and managing our physical and transition impacts.

Sustainability Report continued

Looking forward

Our roadmap for deepening our alignment with the Task Force on Climate-Related Financial Disclosures (TCFD) and furthering our understanding and management of climate change impacts is shown below:

	Action	Pre-Fy22	FY22	FY23	FY24
Governance	Align with internal stakeholders on level of climate ambition and the FY20 Climate Change Risk and Opportunities Register		●		
	Board and management capacity building activities		●		
	Clarify internal structure for climate-related accountabilities, including accountabilities and responsibilities for risk management at each level and establish an ESG Council		●		
Strategy	Undertake climate scenario analysis and develop Climate Change Risk and Opportunity Register	●			
	Study substitutes for key commodity groups		●		
	Physical asset deep-dive and development of climate risk mitigation plans for all physical assets	●	●		
	Deep-dive analysis on extreme weather events, including modelling		●		
	Continue use of scenario analysis in strategic decision making	●	●	●	●
Risk management	Integrate climate risk into corporate risk register		●		
	Document risk owners, control owners and actions in the corporate risk register		●		
	Integrate climate risk management into existing enterprise risk management framework, systems and tools		●	●	●
	Treat and manage key risks			●	
Metrics and targets	Calculate and monitor Scope 3 emissions		●		
	Identify metrics for key risks			●	
	Establish targets for key risks and align to pillar and enterprise strategies			●	
	Monitor performance against targets and metrics			●	●
	Obtain third party assurance over Scope 1, 2 and 3 emissions	●	●		

● *Complete* ● *Ongoing* ● *Future activity*

Waste and recycling

Metcash embarked on a range of new projects in FY21 to further minimise waste to landfill. One of our largest waste generators is our stretch film used for pallet wrapping. Metcash investigated and then implemented new technology that employs thinner, yet stronger materials, optimising pallet stability while reducing unnecessary plastic and cardboard core waste. The new technology has reduced the waste of this plastic by over 100 tonnes on a per annum basis.

Another waste reduction project involved re-designing the core of our pallet wrap to include a reinforced edge. This enables the film roll to withstand edge damage without losing its integrity, which is a common contributor to plastic waste in warehouses. This added feature, together with increased roll length, has resulted in 46,480 cardboard cores being saved from recycling. The new stronger technology has also led to less damage to product in transit, further reducing product loss and waste.

Other waste initiatives in FY21 included:

- Improvements to signage in warehouses, commercial kitchens, canteens and offices to encourage recycling and educate team members on the recyclability of items
- Diverting timber pallets from general waste bins to timber recyclers
- Implementation of the 'Simply Cups' coffee cup recycling solution

A continued focus on keeping waste out of landfill resulted in the diversion of 3,623 tonnes of material in FY21. An additional 417 tonnes of food was diverted from landfill through the collection of edible product by our food rescue partners OzHarvest, Foodbank and Food For Change. Overall, our waste-to-landfill diversion rate improved by 10% in FY21 compared to the prior financial year.

Battery recycling

With over 300m household batteries ending up in landfill and a considerable number of power tool batteries not being recycled, our Hardware pillar is launching an in-store battery recycling drop-off service. The rollout has commenced nationally in Total Tools and at Mitre10 sites in Victoria and South Australia. The program is being extended to IGA stores later this year.

Responsible sourcing

Metcash is committed to being a responsible member of the communities in which we work and live, and we expect the same of our suppliers. We are on a continual journey to improve our policies, systems and targets associated with achieving this outcome. This year we had further engagement with our retailers and sustainability consultants to determine which issues are most important for our retailers and communities. This helped guide our focus for responsible sourcing commitments and the associated initiatives required to ensure they are delivered. This included agreeing with our retailers targets to ensure private label suppliers meet our strict requirements across responsible practice and environment, and animal welfare.

A differentiating factor for our independent store networks is that each store is able to source products from local suppliers and artisans within their regional area. In addition to our private label initiatives, we are supporting our retailers to work towards responsible sourcing goals with their local suppliers by delivering toolkits and training to store owners. The toolkits being generated include guidance on supplier screening, renewable energy contracts, circular economy and recycling opportunities to name a few. Through these programs, we are also actively working with our suppliers to mitigate the social and environmental impacts of their products.

Sustainability Report continued

Responsible practice and environment

We know that our biggest impacts on the environment come from the products we source. We want to continue to provide the best quality products for our customers, while also ensuring we are protecting the ecosystems we rely upon and the livelihoods of those in our supply chain. To help achieve these desired outcomes, we are working to ensure the following in relation to our private label products:

- Food and drink products to support the production of sustainable palm oil. All non-food products and pet food to support the production of sustainable palm oil by 2028
- Seafood to be certified to either the Marine Stewardship Council, Aquaculture Stewardship Council, GLOBAL GAP or Best Aquaculture Practices, or be independently assessed against the Metcash Responsibly Sourced Seafood Policy
- Single ingredient tea, coffee and cocoa to be independently certified to either Rainforest Alliance/UTZ, Fairtrade or Cocoa Horizons by 2025
- Timber, pulp, and paper products to be sourced from plantations independently certified by the Programme for the Endorsement of Forest Certification (PEFC) or Forest Stewardship Council (FSC)
- All products to be sourced from Australian suppliers and farmers first, unless the Australian product quality, supply or innovation is insufficient to meet customers' needs or there is a requirement for international provenance

The year included implementing a number of new initiatives aimed at ensuring we continue to improve and achieve our responsible sourcing goals. These include:

- Investing in a state-of-the-art Quality Assurance database to capture more granular product information on product ingredients and to improve our reporting capability
- Launching our FAD-free private label tuna range
- Ensuring we source 100% FSC and PEFC certified timber products in hardware

Animal welfare

We care about how the animals in our supply chains are treated and we are committed to ensuring their good physical and mental health is maintained. To help achieve this, specific targets have been set for 2025. The following targets relate to our private label products:

- Primary beef cuts and ingredients to be free of hormone growth promoting agents
- Shell eggs to come from free range certified farms
- All egg ingredients to come from cage free systems
- Primary poultry cuts and ingredients are using RSPCA approved chicken and turkey
- Primary pork cuts are using APIQ (Australian Pork Industry Quality Assurance Program) approved sow stall free pork

We are working with shoppers and our suppliers to encourage the making of choices aligned with animal welfare. This has included supporting our suppliers to achieve more stringent certified animal welfare standards and through the provision of in-store information.

Sustainable materials and packaging

Metcash continues to be a contributor to the Australian Packaging Covenant Organisation and supports the goals of phasing out unnecessary single-use plastic packaging. We commenced the rollout of the Australian Recycling Label (ARL) on our Black & Gold and Community Co private label ranges in early 2020, and have included the component-level recycling information on-pack on over 200 products in our Food business and will commence the rollout in our Liquor business from September. The rollout will continue for all new private label food and liquor products that are launched or have their packaging redesigned.

We were pleased to participate in the 'Check It Before You Chuck It' program designed to inform shoppers more thoroughly on how to responsibly dispose of, and recycle, packaging materials to ensure less packaging waste ends up in landfill.

In FY21, we continued our partnership with OneHarvest to both reduce plastic packaging and minimise food waste in our Community Co packaged salad range. Our salad bowls have been redeveloped in a first-to-market offer which includes the use of post-consumer recycled content, reducing the reliance on virgin plastics. Our product development team also worked with OneHarvest to convert all forks to 100% recyclable and to introduce 50% post-consumer recycled plastic materials. This equates to the removal of over 15 tonnes of virgin plastic per annum. In addition, an ultrasonic sealing initiative has been developed to reduce the length of plastic used in bagged salads. Approximately 33% of bagging machinery has already been converted with an expectation that this will increase to 77% coverage by the end of 2022.

A Metcash cross-departmental working group was formed and worked with external consultants to review the prevalence of single-use plastics in our cutlery, takeaway containers, cups, plates, meat trays, deli containers, bowls, stirrers, straws and bags range. Our merchandise team then reviewed the availability of biodegradable plastics, bioplastics, alternative materials and plant-based fibres to enable the phase-out of unnecessary single-use plastic products. To date, 38 single-use plastic products have been substituted in our Food business.

5. OUR CUSTOMERS

Product quality health and nutrition

Metcash is committed to the promotion of living healthier and happier lifestyles, and inspiring shoppers to take positive action for their health and the health of their community. With our store network reaching far and wide into regional and remote locations, we play a vital role in servicing the nutritional and dietary requirements of all segments of the community.

As part of our aim of making it easier for shoppers to make good food choices, we are working to eliminate the following from our private label food and drink:

- Artificial flavours and colours
- Added MSG
- Genetically modified ingredients
- Irradiation unless permitted by law or when it delivers scientific benefit, by exemption only
- Mechanically separated, de-boned and recovered meat as well as advanced meat recovery or extruded bone meat
- Mechanically desinewed meat

We are also working to reduce salt and sugar in line with the Healthy Food Partnership targets, as well as ensuring our private label products have a Health Star rating displayed in line with Australian Government Guidelines.

Our IGA Local Matters Community Program includes providing shoppers with healthy recipes, tips on healthy eating and information about other healthy lifestyle behaviours such as exercise. The program includes:

- A partnership with nutritionists to provide factual and helpful content on how to live healthy lifestyles
- Recipes focused on health considerations (e.g. heart health, immune boosting, low GI)
- Promotions and competitions that help communities to thrive
- Inspiring shoppers with retailer stories on how they support the community and healthy living
- Partnerships with suppliers or third parties that help promote healthy living, communities, or the environment

We continued to add more healthy options for shoppers through the expansion of our Community Co private label range. This included adding new snacking options, as well as conveniently packaged fresh salads. A portion of the sale of each Community Co product is donated to the IGA Community Chest Program.

Sustainability Report continued

6. OUR PARTNERS AND COMMUNITY

Community and charities

The IGA Community Chest Program (CCP) supports a wide range of charities and grassroot community groups, including sporting clubs and schools. Donations were made to ~1,450 community groups and charities across Australia, totalling $2.94m. This brings total CCP donations since inception of the program to ~$96m.

We also continued to support a number of charities including the Special Olympics Australia, a charity we have proudly supported for almost 30 years. This year we raised over $220k to empower people with intellectual disabilities to participate in sport, helping them to form lifelong friendships and develop skills.

This year we celebrated 12 years of partnership with the McGrath Foundation, and we are proud to have raised over $186k in FY21 to fund McGrath Breast Care nurses in our communities. This year we also worked with the Humpty Dumpty Foundation to provide much needed medical equipment for hospitals to help save children's lives.

COVID relief

The impacts of COVID led to a significant increase in the number of Australians seeking assistance from charities. Through our partnership with Vinnies, we conducted an IGA Appeal to help those in our local communities that were in need. The sale of IGA Appeal tokens and Community Chest products led to ~$350k being donated to Vinnies to assist those in need with basic costs such as rental and mortgage payments, utility bills and food vouchers. Metcash staff donated an additional $11k to Vinnies and participated in the annual Vinnies CEO Sleepout which is held at venues across Australia.

Western Australia bushfire relief

Our IGA retail network responded quickly to help Western Australians impacted by the devastating Wooroloo bushfires in February this year. Ben Heptinstall, owner of Supa IGA Stratton, donated care packs to families that were forced to evacuate their homes, while Metcash supplied $45k of gift cards to those impacted. A further $85k was donated to the Western Australia Vinnies bushfire recovery, through supplier donations and sales from the $2 Bushfire appeal tokens.

Flood relief

We partnered with State Emergency Services to get deliveries to those towns in NSW and South Queensland isolated by floods in the year. Our IGA retailers in NSW partnered with Vinnies to quickly activate a flood support campaign whereby funds raised were directed to those in need through the Vinnies Flood Appeal. In Queensland, our IGA retailers donated ~$60k to GIVIT and Drought Angels to support those impacted by the devastating floods.

In March 2020 the IHG Emergency Assistance Fund (EAF) was launched, with IHG matching member contributions to the fund dollar for dollar, giving us a powerful national platform to support communities impacted by natural disaster. The IHG National Advisory Council is the authorising body for the release of all funds, made up of senior store owners from each State.

In March 2021, IHG members voted to support BlazeAid and Drought Angels as the official EAF charity partners. In April 2021, $300k was released to support the New South Wales and South East Queensland floods recovery effort, with $200k provided to Drought Angels and $100k to BlazeAid.

Food rescue

We continued to expand our food rescue program at our Food warehouses and across our independent retailer network, resulting in 417 tonnes of food or more than 850k meals being provided by our partners; Foodbank, OzHarvest and 'Food For Change' to those in need.

We expanded our partnership with 'Food For Change' in the year with the program now operating in 60 IGA stores across New South Wales, South Australia and Victoria. This has resulted in over 300k meals being provided to those in need. The program includes stores being provided with a customised app that connects them to their local food relief agency. We expect to further expand the program in FY22 and continue to collaborate with the New South Wales Environment Protection Authority (EPA) and Green Industries SA to help fund and support the rollout of this important food rescue program.

Labour standards in the supply chain (Modern Slavery)

Metcash is committed to continuous improvement in addressing the risk of modern slavery in our operations and supply chain. This year we continued to build on the steps taken last year designed to understand the extent of these risks and prepare a mitigation plan. This included integrating our requirements in relation to modern slavery into supplier contractual terms and conditions, ensuring our Speak Up Policy is applicable to suppliers and their employees, publishing the Metcash Anti-Slavery Policy and conducting further risk analysis and training, including the development of online education modules.

To understand more about our suppliers' risk profile for modern slavery, we asked a selection of our suppliers (631) that were identified in our risk assessment as having elevated risk to complete a self-assessment questionnaire (SAQ). Feedback from the SAQ would be used to evaluate each suppliers' understanding of modern slavery in their operations, including what policies, processes, audits and third-party affiliations the supplier has.

From those contacted, 182 suppliers responded in full or provided evidence of their own Modern Slavery Statements or due diligence activities. Suppliers were assigned a further risk score to prioritise actions for follow-up, with 11 suppliers flagged as high priority.

Level of priority	Number of suppliers	Supplier/Product Profile
High priority	13	Supplier sources goods or services from high-risk countries while having minimal prevention processes
Medium priority	35	Supplier either sources goods or services from high-risk countries and has modern slavery mitigation policies and processes in place; or does not source from high-risk countries and has no knowledge of modern slavery risks or prevention processes in place
Low priority	130	Supplier does not source from high-risk countries and has a clear understanding of modern slavery with adequate mitigation policies in place

Follow-up activities include requesting suppliers to complete a more detailed SAQ and/or provide further evidence and documentation that enables us to establish how the supplier is mitigating potential risks. Metcash is continuing to pursue those suppliers that have not yet responded to the SAQ.

Suppliers of Metcash's private label products in the Food pillar were requested to join SEDEX, one of the world's leading ethical trade membership organisations. Through SEDEX, members are required to perform a self-assessment questionnaire and Metcash is provided with access to independent third-party social audit reports of our suppliers' production facilities. Currently ~85% of suppliers sites linked to Metcash on SEDEX in FY21 have completed their self-assessment questionnaire or have provided audits on their facilities. This covers 168 sites across 14 countries.

The third-party audit findings presented in SEDEX identified a number of non-conformances, allowing our team to assess various critical issues and to engage with these suppliers in relation to corrective action. This process has resulted in a deeper understanding of our risk profile and the appropriate action to take to address, manage and reduce the risk of modern slavery.

Suppliers assessed as having critical, major and minor non-compliance issues were deemed high risk suppliers, while suppliers that had other non-compliance not related to human rights were categorised as medium risk suppliers for the purpose of follow up activities. The following table summarises the non-conformances.

	Non-Conformances			
Category issue	Critical	Major	Minor	Total
Children and Young Workers			1	1
Entitlement to Work			1	1
Health, Safety and Hygiene	2	8	17	27
Management Systems		1	1	2
Worker Grievances		1	1	2
Regular Employment			2	2
Wages		1	2	3
Working Hours		5		5
Total	**2**	**16**	**25**	**43**

Upskilling our staff and supporting our suppliers

Our people are at the forefront of Metcash's efforts to reduce the risk of modern slavery in our operations and supply chain. To support them in implementing our Anti-Slavery Policy and the Metcash Speak Up Policy, we developed a due diligence framework which serves to help identify, assess and prevent the risk of modern slavery when sourcing and onboarding our suppliers.

We also developed e-learning training modules tailored for internal and external audiences to ensure that our employees, retailer partners and our suppliers understand modern slavery. Our aim in the coming year is to empower these audiences to be able to identify possible cases and know what action they can take to mitigate modern slavery risk.

Reporting

Continuous improvement and learning are integral to the requirements under the Commonwealth Modern Slavery Act 2018. Our reporting framework and an evaluation of our progress, including the effectiveness of our actions, will be included in our second Modern Slavery Statement that is due for submission by 31 October 2021.

Our People

Jeff Adams
BA, Business Administration and Management
Group CEO, Metcash Group

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

Alistair Bell
B.Ec (Sydney), CA, MAICD
Group CFO, Metcash Group

Alistair joined Metcash in 2020 as the Group CFO. He has extensive capital-markets experience and executive leadership in managing international organisations with portfolios of businesses. Alistair has held various CFO, COO and strategy positions in a range of industries with ASX-listed, private equity and multi-national corporations. Most recently, he was the Group CFO of GrainCorp for almost 10 years. Alistair has broad experience as a Non-executive Director, including as Chairman of Audit and Risk Committees.

Scott Marshall
B.Business
CEO, Metcash Food

Scott began his career with Metcash in the ALM business over 28 years ago and was appointed CEO of ALM in December 2013. In March 2018 Scott was appointed CEO, Metcash Food. His areas of experience cover warehousing operations and management, sales, retail operations, State general management and marketing management.

Annette Welsh
CEO, Independent Hardware Group

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

Our Board

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

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

Jeff Adams
BA, Business Administration and Management
Group CEO, Executive Director

Peter Birtles
BSc Hons, FCA, MAICD
Non-Executive Director

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

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

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

Chris Baddock
GradCertBus, GAICD
CEO, Australian Liquor Marketers

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

David Reeve
CIO, Metcash Group

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

Penny Coates
BA Hons, Chartered Fellow CIPD, GAICD
Chief People and Culture Officer, Metcash Group

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

Matt Havens
BA Hons, MBA
Chief Strategy and Transformation Officer, Metcash Group

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

Christine Holman
MBA, PG Dip Mgt, GAICD
Non-Executive Director

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

Murray Jordan
MPA, MACID
Non-Executive Director

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

Helen Nash
BA Hons, GAICD
Non-Executive Director

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

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

Directors' Report

Your Directors submit their report of Metcash Limited (the 'Company') and its controlled entities (together the 'Group' or 'Metcash') for the financial year ended 30 April 2021 ('FY21').

OPERATING AND FINANCIAL REVIEW

1. METCASH'S BUSINESS MODEL

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

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

The Group employs over 7,000 people and indirectly supports employment in the independent retail network.

2. STRATEGIC OBJECTIVES

Metcash's purpose is *'Championing successful independents'*. Metcash's vision includes:

- supporting independent retailers to be the best store in town;
- being passionate about independents;
- being a favourite place to work;
- being a business partner of choice for suppliers and independents;
- supporting thriving communities; and
- creating a sustainable future.

The strategic vision is underpinned by a number of programs and initiatives across the three pillars (Food, Liquor and Hardware) aimed at supporting our independent retailers. These were outlined at the Investor Day in March 2021 and include store upgrade programs, new store formats and brand clarity, expanding private label brands, core ranging and pricing, marketing support, accelerating eCommerce and system enhancements as well as training and development programs for independent retailers.

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

3. KEY DEVELOPMENTS

Acquisition of Total Tools Holdings Pty Ltd and JV Stores ('Total Tools Group')

In September 2020, the Group acquired 70% of the shares of Total Tools for a total purchase consideration of $56.9 million. Total Tools is the franchisor to the largest tool retail network in Australia with 82 bannered stores nationwide as at 1 September 2020. In December 2020, Total Tools acquired ownership interests of between 51% and 60% in twelve Total Tools independent retail stores ('JV Stores') for $42.5 million. Put and call option arrangements exist which enable Metcash to acquire 100% of these businesses during FY24/FY25. Further details are set out in note 13 of the financial report.

COVID-19 pandemic

The Group has achieved a significant increase in sales revenue across all pillars, stemming both from underlying growth initiatives and also from the shift in consumer behaviour which was initially triggered by COVID-19. During FY21, Metcash was successful in capitalising on these changes by retaining and growing our customer base.

Nevertheless, the Group continues to be subject to COVID-19 related volatility and uncertainty in its trading environment and operations, as well as from the dynamic economic landscape. Metcash has retained a provision for COVID-19 related impairments of $10.7 million as detailed in note 3 of the financial report.

Directors' Report

***Project Horizon* implementation costs**

Metcash has embarked on a three-year *Project Horizon* stage one program aimed at derisking our processes by replacing aged technology whilst driving efficiencies and simplifying processes through the development of a single operating system across the Group. In FY21, the Group incurred $17.3 million of capital expenditure and $7.9 million of expenses on the program as detailed in note 3 of the financial report.

***MFuture* program, including South Australia Distribution Centre ('SADC')**

The five-year *MFuture* program initiatives are focused on growth opportunities and maximising the effectiveness of the Group's cost of doing business ('CODB'). In December 2020, the Group successfully opened the new distribution centre in South Australia ('SADC') which will increase retailer competitiveness through a wider range and efficiencies.

Capital management initiatives

On 20 May 2020, Metcash announced the successful completion of its Share Purchase Plan ('SPP') which raised $13.5 million, net of transaction costs and that resulted in 5,963,215 new shares being issued at $2.28 per share.

On 16 March 2021, Metcash announced an increase to the target dividend payout ratio from 60% to 70% of underlying profit after tax, effective FY21.

Changes in key management personnel (KMP)

Alistair Bell joined Metcash on 1 September 2020 and was appointed Group Chief Financial Officer ('Group CFO') from 7 December 2020 following Brad Soller's retirement from the role.

Christine Holman joined the Metcash Board as a Non-executive Director on 14 September 2020. Ms Holman joined the Audit Risk & Compliance and Nomination Committees from her appointment date.

Margaret Haseltine joined the Metcash Board as a Non-executive Director on 3 May 2021. Tonianne Dwyer will retire from the Board following the completion of the FY21 financial report.

Dividend declaration

The Board has determined to pay a fully franked final FY21 dividend of 9.5 cents per share, which together with the interim dividend of 8.0 cents per share, represent a full year dividend payout ratio of ~71% of underlying profit after tax.

4. KEY FINANCIAL MEASURES

Warehouse earnings

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

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

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

Cost of doing business

The Group's profitability depends on the efficiency and effectiveness of its operating model. This is achieved by optimising the Group's cost of doing business ('CODB') which comprises the various costs of operating the distribution centres and the administrative support functions. During FY21, the efficiency of the supply chain was impacted by COVID-19 Safe work practices implemented to align with local health regulations.

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

Funds employed and return on capital

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

Directors' Report

The Board's intention is to continue to invest in the business for future growth while maintaining a strong financial position and otherwise to assess returning surplus capital to shareholders.

Non-IFRS Information

The directors report contains IFRS and non-IFRS financial information. IFRS financial information is financial information that is presented in accordance with all relevant accounting standards. Non-IFRS financial information is financial information that is not defined or specified under any relevant accounting standards and may not be directly comparable with other companies' information. Non-IFRS measures are used by management to assess and monitor business performance at the Group and segment level and should be considered in addition to, and not as a substitute for, IFRS information. Non-IFRS information is not subject to audit or review.

Impact of new IFRIC agenda decision on key financial measures

In April 2021, IFRIC published an agenda decision in relation to the accounting treatment of configuration and customisation costs related to 'Software as a Service' ('SaaS') arrangements. The Group is currently assessing the impact the agenda decision will have on its current accounting policy and whether previously capitalised costs may need to be derecognised. Accordingly, the potential impact of the IFRIC agenda decision on the Group cannot be reliably estimated at the date of this report. The Group expects to complete the implementation of the above IFRIC agenda decision as part of its 31 October 2021 reporting.

5. REVIEW OF FINANCIAL RESULTS

Group overview

	FY21 $m	FY20 $m
Sales revenue	**14,315.3**	**13,025.4**
Food	192.4	182.7
Liquor	88.7	72.8
Hardware	136.0	84.2
Corporate	(15.7)	(4.8)
Underlying earnings before interest and tax ('EBIT')	**401.4**	**334.9**
Net finance costs	(42.6)	(52.0)
Underlying profit before tax	358.8	282.9
Tax expense on underlying profit	(103.7)	(82.5)
Non-controlling interests	(2.4)	(1.6)
Underlying profit after tax ('UPAT') (a)	**252.7**	**198.8**
Significant items	(17.0)	(268.5)
Tax benefit attributable to significant items	3.3	12.9
Net profit/(loss) for the year attributable to members	**239.0**	**(56.8)**
Underlying earnings per share (cents) (b)	**24.7**	**21.8**
Reported earnings/(loss) per share (cents)	23.4	(6.2)

(a) UPAT is defined as reported profit after tax attributable to equity holders of the parent, excluding significant items identified in note 3(vii) of the financial report.
(b) Underlying earnings per share (EPS) is calculated by dividing UPAT by the weighted average shares outstanding during the year.

Group reported revenue, which excludes charge-through sales, increased 9.9% to $14.3 billion (FY20: $13.0 billion). Including charge-through sales, Group revenue increased 10.1% to a record $16.4 billion, with significant growth in sales volumes across all Pillars.

Group underlying EBIT increased 19.9% to $401.4 million with strong volume growth and improved leverage in all Pillars.

In Food, increased earnings were underpinned by higher sales volumes and an improvement in the contribution from joint venture stores. This improvement was despite FY21 not including sales to Drakes in South Australia[1], and substantially less sales to 7-Eleven[2] following the ending of their previous supply agreement in mid-August 2020.

In Liquor, significant earnings growth was underpinned by strong demand in the retail network, partly offset by lower sales to 'on-premise' customers due to the impact of COVID-19 trading restrictions.

In Hardware, exceptional earnings growth was driven by a significant increase in do-it-yourself (DIY) sales, a return to growth in Trade sales and the contribution from acquisitions[3].

Directors' Report

Group underlying profit after tax increased 27.1% to $252.7 million[4] and statutory profit after tax was $239.0 million (FY20: a loss of $56.8 million[5]). Underlying earnings per share increased 13.3% to 24.7 cents reflecting an increase in profit after tax and the impact of the Company's equity raising in FY20.

Group operating cashflow was a record $475.5 million (FY20: $117.5 million), which reflects the higher earnings, a reduction in working capital and a cash realisation ratio of 114.2%[6] (FY20: 33.0%). The Group ended the financial year with net cash of $124.6 million (FY20: $86.7 million).

Segment results

	Segment revenue		Segment underlying EBIT	
	FY21 $m	FY20 $m	FY21 $m	FY20 $m
Food	8,316.3	8,121.6	192.4	182.7
Liquor	4,374.3	3,670.3	88.7	72.8
Hardware	1,624.7	1,233.5	136.0	84.2
Corporate	-	-	(15.7)	(4.8)
Metcash Group	**14,315.3**	**13,025.4**	**401.4**	**334.9**

Food

Total Food sales (including charge-through) increased 3.1% to $9.4 billion (FY20: $9.1 billion) or 11.0% excluding the impact of Drakes[1] and 7-Eleven[2].

In Supermarkets, total sales (including charge-through) increased 10.0% to $8.3 billion (FY20: $7.5 billion) and 11.6% excluding the impact of Drakes[1]. This included a 16.7% increase for the ten months to February 2021, and an 8.0% decrease in March/April 2021 sales (ex-Drakes impact), compared with the same period in FY20 which included peak demand from the impact of COVID-19 related trading restrictions. Compared with the same period in FY19, Supermarkets sales increased 15.6% in March/April 2021 (ex-Drakes impact).

Strong sales growth was delivered in all states, particularly Victoria where demand was impacted by extended COVID-19 related lockdowns.

The IGA retail network continued to benefit from a shift in consumer behaviour, including an increased preference for local neighbourhood shopping, migration from cities to regional areas, more flexible working and cooking at home, and the success of *MFuture* initiatives to retain new and returning customers gained through COVID-19.

The IGA retail network performed strongly with 'like for like' (LfL)[7] sales increasing 10.5% compared with the prior comparative year, and 18.8% compared with FY19.

Food EBIT increased $9.7 million (+5.3%) to $192.4 million (FY20: $182.7 million) reflecting strong growth in sales volumes and an increase in the contribution from joint venture stores. The improvement in EBIT was ~$20 million after adjusting for the impact of Drakes in South Australia and 7-Eleven, a decline in the contribution from resolution of onerous lease obligations and the increased contribution from joint venture stores.

The EBIT margin[8] for Food was in line with the prior corresponding year at 2.0%, despite 2H21 including an increased weighting of lower-margin charge-through and tobacco sales in the sales mix.

Liquor

Total Liquor sales (including charge-through) increased 19.2% to $4.4 billion (FY20: $3.7 billion) reflecting continued strong demand in the retail network, partly offset by the adverse impact of COVID-19 trading restrictions on 'on-premise' customers.

Wholesale sales to the IBA retail banner group increased 22.6% with strong growth in Cellarbrations, the Bottle-O, IGA Liquor, Duncans, Thirsty Camel, Liquor@, Big Bargain and Porters. The strong sales growth was buoyed by an increase in customer preference for local neighbourhood shopping, home consumption substituting 'on-premise' consumption and less overseas travel and duty-free sales. Retail LfL sales[9] in the IBA retail banner group increased 19.7% (FY20: +3.2%), with strong growth continuing in 2H21 despite a recovery in 'on-premise' sales.

Liquor EBIT increased $15.9 million (+21.8%) to $88.7 million reflecting the increase in sales volumes and the effective management of costs. The EBIT margin for Liquor was in line with the prior corresponding year at 2.0% despite an increase in the weighting of lower-margin categories in the sales mix.

Directors' Report

Hardware

Hardware sales (including charge-through) increased 24.7% to $2.6 billion (FY20: $2.1 billion) with significant growth in DIY sales and a return to growth in Trade.

Total IHG sales (excluding Total Tools) increased 17.9% (FY20: -1.3%). This includes a 19.4% increase for the ten months ended February 2021 and a 12.3% increase in March/April 2021 sales. Compared with FY19, March/April sales increased 25.4%.

Retail LfL sales[10] in the IHG banner group increased 11.4% (FY20: -0.7%), with DIY sales up 25.1% and Trade sales 4.9% higher. The significant growth in DIY sales was underpinned by a shift in consumer behaviour to more home improvement projects, gardening and maintenance activity, and the success of *MFuture* initiatives to further improve the competitiveness of the IHG retail network. Trade sales strengthened in 2H21 supported by Government stimulus to drive increased renovations activity.

The growth in higher margin DIY sales has resulted in a change in the sales mix to ~40% DIY and ~60% Trade (FY20: ~37% DIY, ~63% Trade).

Online sales increased 122%, with Hardware's advanced digital capability helping optimise strong online demand.

The Home Timber & Hardware teamwork score continued to increase finishing the year at ~72% (FY20: ~68%).

Hardware EBIT increased $51.8 million (+61.5%) to $136.0 million, reflecting a significant increase in sales volumes, an increase in the contribution from company-owned / joint venture stores, and the earnings from acquisitions[3] which included $24.0 million from the Total Tools Group.

The EBIT margin for Hardware increased 130 basis points to 5.3% which includes the positive impact of Total Tools and the retail margin from joint venture and company-owned stores.

Finance costs and tax

Net finance costs decreased during the year reflecting lower debt utilisation driven by strong operating cash generation and lower interest rates. Tax expense of $103.7 million on underlying profit represents an effective tax rate of 28.9% (FY20: 29.2%).

Significant items

Significant items included *Project Horizon* implementation costs of $7.9 million and costs related to the *MFuture* program of $3.5 million. Significant items also included costs incurred in relation to the acquisition of Total Tools and finance costs from discounting the Total Tools put option liabilities totalling $6.1 million and a reversal of the previously recognised COVID-19 allowance for impairment loss of $0.5 million.

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

Refer note 3 of the financial report for further information.

Directors' Report

Cash flows

	FY21 $m	FY20 $m
Operating cash flows	475.5	117.5
Investing cash flows, net	(216.0)	(81.6)
Proceeds from equity raising, net of share issue costs	13.5	294.3
Dividends paid	(148.3)	(118.2)
Payments for lease liabilities, net and other financing activities	(86.8)	(89.8)
Increase in net cash	**37.9**	**122.2**

Group operating cash flows were significantly higher than in the prior corresponding period at $475.5 million (FY20: $117.5 million), underpinned by strong sales and working capital management.

The cash realisation ratio for the year was 114.2%, reflecting strong operating cash flows and a reduction in working capital.

The Group had net investing outflows of $216.0 million, including capital expenditure of $85.6 million and acquisitions of businesses of $143.1 million. The acquisitions were predominantly in the Hardware pillar and included a majority stake in Total Tools.

The Group paid $148.3 million (FY20: $118.2 million) in dividends during the current financial year. Total dividends paid in FY21 was 14.5 cents per share (FY20: 13.0 cents per share).

Financial position

	FY21 $m	FY20 $m
Trade receivables	1,607.8	1,559.0
Inventories	1,008.0	1,032.2
Trade payables and provisions	(2,234.4)	(2,181.9)
Net working capital	**381.4**	**409.3**
Intangible assets	729.1	581.8
Property, plant and equipment	231.8	214.0
Equity-accounted investments	82.5	77.6
Customer loans and assets held for sale	41.3	56.3
Total funds employed	**1,466.1**	**1,339.0**
Lease balances (net)	(179.9)	(166.1)
Put option liabilities	(212.5)	(6.1)
Tax and derivatives	92.8	118.1
Net cash	124.6	86.7
Net assets/equity	**1,291.1**	**1,371.6**

Net working capital decreased by $27.9 million to $381.4 million, notwithstanding growth from acquisitions, reflecting working capital management.

Capital expenditure of $85.6 million during the year included $17.3 million incurred in relation to *Project Horizon*.

Put option liabilities of $212.5 million have been recognised, predominantly in relation to the Total Tools Group (refer note 13 of the financial report).

The Group was in a net cash position at 30 April 2021 of $124.6 million (FY20: Net cash of $86.7m). Metcash had $894.3 million in unused debt facilities and $124.6 million of cash and cash equivalents available at the reporting date for immediate use.

COVID-19 uncertainty

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

Directors' Report

Commitments, contingencies and other financial exposures

Put options, including in relation to Ritchies Stores Pty Ltd, are detailed along with other contingent liabilities in note 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 within a range, in accordance with treasury policy. At year end, the Group did not have any interest-bearing debt. Further details are set out in note 16 of the financial statements.

6. OUTLOOK

The Group has continued to benefit from the shift in consumer behaviour with strong sales in the first eight weeks of FY22.

In Food, sales in the first eight weeks of FY22 increased 13.7% compared with the same period in FY20, and decreased 1.4% compared with the same period in FY21 (ex-Drakes[1] and 7-Eleven[2] impact). This reflects the success of *MFuture* in improving the competitiveness of our IGA retail network and retaining new and returning customers gained through COVID-19. Including the impact of Drakes[1] and 7-Eleven[2], total Food sales increased 1.1% compared with the same period in FY20, and decreased 8.2% compared with the same period in FY21.

Supermarkets sales for the first eight weeks of FY22 increased 10.1% (+14.2% ex-Drakes[1] impact) compared with the same period in FY20, and were 2.4% lower than the same period in FY21.

The Food pillar is focused on the successful execution of the next phase of *MFuture* aimed at further improving the competitiveness of our IGA retail network to support the continued retention and growth of its shopper base.

As previously announced, Food earnings in FY22 will include an estimated net adverse impact of ~$10.0 million from the loss of stock profits[11] due to there being no tobacco excise increase in September 2021. This is expected to be largely reflected in 1H22.

In Liquor, very strong sales have continued in the first eight weeks of FY22, increasing 26.0% compared with the same period in FY20, and 17.3% compared with the same period in FY21. The significant uplift reflects continued strong demand across retail stores and an improvement in sales to 'on-premise' customers. Sales to the IBA retail banner group in the first eight weeks of FY22 increased 23.1% compared with the same period in FY20, and 2.8% compared with the same period in FY21.

The Liquor pillar is focused on progressing its *MFuture* growth initiatives in private and exclusive label, digital transformation, supply chain flexibility and efficiency, and driving brand awareness and appeal.

In Hardware, sales for the first eight weeks of FY22 increased 29.1% compared with the same period in FY20, and 15.5% compared with the same period in FY21. Total IHG sales[12] for the first eight weeks of FY22 are up 15.1% compared with the same period in FY20, and 3.1% compared with the same period in FY21. There continues to be a solid pipeline of residential construction activity despite the Government stimulus program aimed at boosting renovation activity ceasing in March this year. Strong demand is continuing to place some pressure on stock availability, particularly timber.

The Hardware pillar is continuing to progress *MFuture* growth initiatives aimed at growing Trade and DIY while also continuing to focus on being a low-cost leading hardware and professional tools wholesaler with retail experience.

The Hardware pillar earnings in FY22 will include a full year of trading in Total Tools Group.

While the Group has managed well through the significant challenges associated with COVID-19 in FY20 and FY21, there continues to be some uncertainty over the potential impact of any future COVID-19 related trading restrictions or changes in consumer behaviour.

FY22 will include a 53rd trading week.

Directors' Report

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, digital and technological development and disruption, healthy living trends and increasing choices in both online and in-store retail options. These changes may impact Metcash's sales mix and earnings. Metcash's strategy puts customers and consumers first, with ongoing focus on our shopper-led range, e-commerce and loyalty, store quality and overall perception of value at checkout.

Metcash is planning to accelerate its investment in digital, expanding our capability and improving our delivery of digital solutions to our retailers and shoppers. This will be achieved through investment in the 'Metcash Digital Accelerator', which is built on three key principles: driving digital sales, investing in digital capability over time, and using funding more efficiently.

In executing its strategy, there is a risk that Metcash may experience project execution issues or may not realise the full benefits of projects that underpin its strategic plan. There is also a risk that projects may experience scope, time or cost variability or overruns.

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

COVID-19 risks

At the start of the COVID-19 pandemic there was a high degree of uncertainty as to the potential impact it may have on the broader economy and on Metcash's operations. As the pandemic progressed it was evident that Metcash's Food business provides a critical service to local communities across Australia, ensuring the continued supply of food and grocery products for people staying closer to their homes. All of Metcash's pillars have performed strongly during the pandemic, with some minor operational complexities caused by supply chain disruption, quarantines, lockdowns, travel restrictions, and actions of health authorities.

The Group's operations may be directly and indirectly impacted by any prolonged or ongoing period of COVID-19 and the resulting economic uncertainty that may arise. In particular, continued restrictions such as social distancing, quarantines, travel restrictions, work stoppages, health authority actions, lockdowns and other related measures may impact our operational and financial performance. Further, the discontinuation of COVID-19 government assistance measures supporting the economy may also impact the Group's operations.

Competition risks

Any increase in competitive activity from new or existing competitors (including in the form of a new market entrant with a wholesaler model, where suppliers sell directly to the Group's customers, where customers form their own buying groups to collectively negotiate and purchase directly from suppliers or where indirect competitors change their business models to compete directly with the Group) may have a detrimental effect on the Group's operations, particularly if Metcash fails to respond effectively to that competitive activity or its response is delayed (for example, as a result of the time required to engage with the Group's independent retail network in order to implement an initiative). Increased competition may also adversely impact Metcash's long-term performance and profitability.

Key brands risk

Metcash's success in generating profits and increasing its market share is based on the success of the key brands it owns or licences. Reliance on key brands makes Metcash vulnerable to brand damage from negative publicity, product tampering or recalls, unauthorised use of its brands or ineffective brand management by Metcash or its licensees, increasing the risk of asset write downs.

Operational and compliance risks

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

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

Directors' Report

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

Property and facilities risk

Metcash leases facilities for the wholesale distribution of grocery, fresh produce, liquor, hardware and other fast-moving consumer goods. Damage to or destruction of these facilities could result in the loss or reduction of distribution capability and hence adversely impact Metcash's financial results. While Metcash has in place insurances that it considers are sufficient for a business of its type and size, Metcash will be required to pay for the loss on any event up to the deductible and self-insurance retention.

Financial risks

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

Funding and liquidity risk continue to be relevant to the Group due to the need to adequately fund business operations, growth initiatives and absorb potential loss events that may arise. Inability to adequately fund the Group's business operations and growth plans may lead to difficulty in executing the Group's strategy. Metcash maintains a prudent approach towards capital management, which includes optimising working capital, targeted capital expenditure, capital and asset recycling and careful consideration of its dividend policy.

In addition, banking facilities are maintained with sufficient tenure, diversity and headroom to fund business operations. However, these is a risk that the Group may be unable to refinance or renew its banking facilities following expiry, or will only be able to refinance or renew those facilities on terms that are less favourable to the Group than existing terms. Any inability to refinance banking facilities or obtain capital or financing generally, on favourable terms or at all, may have a material adverse effect on the Group's financial performance and position.

The Group's financial risk management framework is discussed in further detail in note 16 of the financial statements.

Trading and customer risks

Metcash's ability to operate efficiently is critical to support independent retailers in remaining competitive. A disruption to the business could result in an increased cost to serve retailers and inability to meet customers' requirements.

Tobacco sales represent a significant proportion of the products Metcash supplies to its independent retailers. In September 2020, the Australian Government's legislated annual 12.5% increase in customs and excise duties ceased. Consequently, Metcash's earnings will no longer include a stock revaluation gain based on the value of tobacco stock on hand at the time of the excise duty and the related sales price increase. Metcash will continue to recognise tobacco stock revaluation gains from any increase in the consumer price index during the year. Metcash has put in place mitigation strategies to support earnings performance following this impact.

In its Food pillar, Metcash services a number of large customers known as Multiple Store Owners (MSOs). These customers own and/or operate more than one independent retail store, and in some cases can own and/or operate a sizeable number of stores (examples of larger MSOs include Ritchies Stores Pty Ltd (Ritchies) and Romeo Retail Group). In addition, Metcash supplies Foodworks stores under a supply agreement that is terminable by either party without cause on 12 months' notice. If any one or more MSOs or Foodworks were to materially reduce or cease to source their inventory from Metcash for any reason (including vertically integrating their supply chain, establishing an alternative buying group, purchasing from another source, entering into a Supply Agreement with a competitor or closure of stores due to insolvency or poor performance), this would adversely impact Metcash's long-term performance and profitability.

In addition, there are certain large contract customers in the Liquor business whose contracts are renewed on a regular basis. If one or more of these contract customers decided not to renew their supply contract this too could adversely impact Metcash's long-term performance and profitability. Further, the Liquor business also has a number of large suppliers and if one or more of these suppliers decided to no longer conduct business with Metcash, this too could adversely impact Metcash's long-term performance and profitability.

Information technology risks

Metcash relies on a number of complex information technology systems to support its warehousing and distribution, supply chain, customer service, marketing and finance operations. A severe disruption to the information technology systems may significantly impact the operations and value of Metcash. Metcash is embarking on a business transformation program called *Project Horizon* which will replace end-of-life technology, reducing operational risk and onerous maintenance costs.

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

Directors' Report

Social responsibility, environment and climate change risks

Metcash is committed to '*Championing successful independents*' and a key element of this is underpinned by ensuring its operations are conducted in a socially responsible manner.

Metcash has a moderate exposure to environmental risks. Metcash's operations could be impacted by natural disasters, extreme weather events or other catastrophic events which could materially disrupt its operations and supply chain. There is also a risk that, with time, the frequency and intensity of natural disasters and extreme weather events may increase if anthropogenic climate change accelerates or worsens.

As Australia's leading wholesaler, Metcash is conscious of the impact its operations may have on the environment. Although our operational footprint is broad with a presence in all states and territories, Metcash is not considered to be a large emitter of carbon emissions, with total CO2 equivalent (Scope 1 and Scope 2 emissions) being not much above the 50Kt threshold for reporting under the National Greenhouse and Energy Reporting Scheme. Metcash seeks to manage its environmental impact through programs and initiatives to manage its energy consumption and waste.

During FY20, Metcash conducted a climate change risk assessment, which considered the physical and transitional risks of climate change on the Group's operations. The main drivers of physical climate change risk for Metcash are the potential increase in frequency and severity of acute climate change events, such as bushfires, drought, extreme storms and cyclones. The assessment concluded that the highest inherent rated risk is likely to be an increase in insurance premiums year on year. Other lower rated inherent rated risks include: damage to facilities and equipment, a temporary increase in costs to service our retailers during these events, a temporary disruption to our supply chain and distribution network, reduced availability and quality of fresh products, a decrease in the availability of timber products due to the impact of bushfires. Regarding transitional risks, the assessment found there are medium level transition risks, including potential reputational damage should Metcash not meet stakeholder expectations on climate management, and additional compliance costs should government introduce new greenhouse gas emission regulations or laws. For further information on how we manage environmental risks please refer to the Sustainability Report within our Annual Report.

Metcash has a low to moderate exposure to social risks. Our business and our people are driven by our purpose of '*Championing successful independents*', and Metcash is proud to support independent retailers who are at the heart of local communities across Australia. At the core of our Purpose and Vision are our Values – we believe that independence is worth fighting for; in treating our people, retailers and suppliers the way we like to be treated; and in giving back to the communities where we live and work.

We contribute to our local communities through the IGA Community Chest Program, disaster relief, and through our partnership with Foodbank. Metcash meets the threshold for reporting under the Modern Slavery Act 2018 (Cth) with our most recent statement available at modernslaveryregister.gov.au and our Anti-Slavery Policy is available on our website. Metcash is taking steps to continually improve its exposure to modern slavery risks in its supply chain. Further, under pending reforms to the Security of Critical Infrastructure Act 2018 (Cth), Metcash has been advised that it will be deemed a 'critical food and grocery asset', which will require it to implement certain measures to meet compliance with the Act. For further information on how we manage social risks please refer to the Sustainability Report within our Annual Report.

Directors' Report

Work health and safety

While a strong emphasis is placed on the implementation of work health and safety standards, the risk of injury or fatality remains possible. The occurrence of such events may have an adverse effect on the productivity, operations and reputation of Metcash.

Metcash is focused on the safety of its staff and customers. The Group's safety processes have been reviewed in light of COVID-19 and, where appropriate, additional processes and procedures have been implemented.

People and culture risks

The increasing competitive landscape and the ongoing need for market participants to remain agile in order to adapt to consumer preferences continues to place pressure on the competition for talent. The ability to attract and retain talent with the necessary skills and capabilities to operate in a challenging market whilst being able to effect transformation is critical to Metcash's success. Metcash competes in labour markets to attract and retain its employees and management team. The competitive nature of these labour markets may result in the loss of key employees from time to time or make it difficult and costly to attract or retain employees. If Metcash is unable to attract and retain high calibre employees, this may adversely affect the Group's operations and overall financial performance.

Interruptions at Metcash's workplaces arising from industrial disputes, work stoppages and accidents may result in production losses and delays. Renegotiation of collective agreements may increase Metcash's operating costs and may involve disputes.

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

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

End of the Operating and Financial Review

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[1] Metcash ceased to supply Drakes in South Australia from 30 September 2019. To enable comparison, sales in the comparative period have been adjusted accordingly, to exclude the impact of sales to Drakes.
[2] The previous supply agreement with 7-Eleven concluded on 17 August 2020. To enable comparison, sales in the comparative period have been adjusted accordingly, to exclude the impact of sales to 7-Eleven.
[3] Acquisitions include Total Tools Holdings (8 months) and 12 Total Tools JV stores (5 months), Finlaysons, Wilsons HTH and in FY20, G.Gay & Co, Keith Timber and Womersley's.
[4] Underlying profit after tax in FY21 excludes significant items: Total Tools Holdings acquisition costs and put option valuation adjustment of $6.1 million, *Project Horizon* implementation costs of $5.5 million, *MFuture* implementation and other costs of $2.1 million (all post tax).
[5] FY20 Statutory loss after tax includes an impairment of goodwill and other assets of $237.4 million (post tax).
[6] Cash realisation ratio = Cash flow from operations/underlying NPATDA (depreciation and amortisation not tax effected).
[7] Based on scan data from 1,103 IGA stores.
[8] EBIT margin: EBIT/Total revenue (including charge-through).
[9] Based on scan data from 536 IBA stores.
[10] Based on a sample of 234 network stores that provide scan data (represents >50% of sales).
[11] The estimated net impact is after anticipated mitigating actions including revised trading terms with suppliers and cost reductions.
[12] Excludes Total Tools sales.

Directors' Report

BOARD INFORMATION

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

ROBERT A MURRAY (MA Hons, Economics (Cantab))
Independent Non-executive Chair

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

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

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

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

JEFFERY K ADAMS (BA, Business Administration and Management)
Group Chief Executive Officer, Executive Director

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

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

TONIANNE DWYER (B Juris (Hons), LB (Hons), GAICD)
Independent Non-executive Director

Tonianne joined the Board on 24 June 2014. She is a member of the Audit, Risk and Compliance Committee and the Nomination Committee.

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

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

Tonianne is also a non-executive director of Incitec Pivot Limited (since May 2021), Oz Minerals Limited (since March 2017) and ALS Limited (since July 2016), and is a director of the Sir John Monash Foundation (since November 2020), as well as a director of Chief Executive Women and Deputy Chancellor of the University of Queensland (both since 2017). Tonianne is a former non-executive director of Queensland Treasury Corporation (February 2013 to June 2020).

MURRAY P JORDAN (MPA and MAICD)
Independent Non-executive Director

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

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

Murray is a non-executive director of Metlifecare Pty Limited, Asia Pacific Village Holdings Pty Limited and Asia Pacific Village Group Pty Limited (each since November 2020), Sky City Entertainment Group Limited (since December 2016), Stevenson Group Limited (since July 2016) and Chorus Limited (since September 2015), each a New Zealand company. He is also a trustee of the Starship Foundation in New Zealand that raises funds for the National Children's Hospital, a trustee of the Foodstuffs member protection and co-operative perpetuation trusts (since January 2019), a trustee of the Southern Cross Health Trust (since August 2019) and a director of the Southern Cross Medical Care Society (since January 2020).

Directors' Report

HELEN NASH (BA Hons, GAICD)
Independent Non-executive Director

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

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

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

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

PETER BIRTLES (BSc Hons, FCA, MAICD)
Independent Non-executive Director

Peter was appointed to the Board on 1 August 2019. He is Chair of the Audit, Risk and Compliance Committee (since July 2020) and a member of the Nomination Committee.

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

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

Peter is a non-executive director of Universal Store Holdings Limited (since October 2020) and GWA Group Limited (since 2010), and also a director of APG & Co Pty Limited and Apparel Group Pty Limited (both since July 2019), as well as Good360 Australia Ltd (since August 2019). Peter was formerly a director of Auto Guru Limited (2015 to 2019).

CHRISTINE HOLMAN (MBA, PG Dip Mgt, GAICD)
Independent Non-executive Director

Christine was appointed to the Board on 14 September 2020 and is a member of the Audit, Risk and Compliance Committee and the Nomination Committee.

Christine has more than 25 years of commercial experience across a broad range of areas including mergers and acquisitions, finance, sales, technology, digital transformations and marketing. She has held Chief Financial Officer roles with Telstra Broadcast Services and Globecast Australia, as well as having extensive experience in private equity.

Christine is a non-executive director of Collins Foods Limited (since December 2019), Blackmores Limited (since March 2019) and CSR Limited (since October 2016). She is also a director of The McGrath Foundation (since July 2020), T20 Cricket World Cup (since January 2018), Moorebank Intermodal Company (since August 2019), The State Library of New South Wales Foundation (since February 2017) and The Bradman Foundation (since December 2016). Christine is a former non-executive director of Wisetech Global Limited (December 2018 to October 2019) and HT&E Limited (November 2015 to December 2018).

COMPANY SECRETARY

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

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

Indemnification and insurance of Directors and Officers

Under the Constitution of the Company, the Company indemnifies (to the full extent permitted by law) current and former Directors and Company Secretaries and such other current and former officers as the Board may determine from time to time against all losses and liabilities incurred as an officer of Metcash or its related companies. The Company may enter into a deed indemnifying such officers on these terms. The Company enters into such deeds with each of its Directors and Company Secretaries from time to time.

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

Directors' Report

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

	Appointed	Meetings held	Meetings attended	Ordinary shares held at reporting date
Board of Directors				
Robert Murray (Chair)(a)	29 Apr 2015	5	5	84,005
Jeffery Adams	5 Dec 2017	5	5	547,858
Tonianne Dwyer	24 Jun 2014	5	5	60,000
Murray Jordan	23 Feb 2016	5	5	57,441
Peter Birtles	1 Aug 2019	5	5	40,000
Helen Nash	23 Oct 2015	5	5	51,189
Christine Holman	14 Sept 2020	3	3	30,000
Audit, Risk & Compliance Committee				
Peter Birtles (Chair) (b)	1 Aug 2019	7	7	
Tonianne Dwyer	24 Jun 2014	7	7	
Murray Jordan	23 Feb 2016	7	7	
Christine Holman	14 Sept 2020	4	4	
People & Culture Committee				
Helen Nash (Chair) (c)	23 Oct 2015	5	5	
Murray Jordan	31 Aug 2016	5	5	
Robert Murray	27 Feb 2020	5	5	
Nomination Committee				
Robert Murray (Chair)	29 Apr 2015	1	1	
Tonianne Dwyer	24 Jun 2014	1	1	
Murray Jordan	23 Feb 2016	1	1	
Peter Birtles	1 Aug 2019	1	1	
Helen Nash	23 Oct 2015	1	1	
Christine Holman	14 Sept 2020	-	-	

(a) Mr Murray was appointed Chair of the Board on 27 August 2015.
(b) Mr Birtles was appointed Chair of the Audit, Risk & Compliance Committee on 1 July 2020.
(c) Ms Nash was appointed Chair of the People & Culture Committee on 1 July 2019.

From time to time, additional Board committees or working groups are established, and meetings of those committees and working groups are held throughout the year, for example, to consider material transactions or material issues that may arise. The Board also holds regular calls with the Group CEO to stay abreast of current matters. In addition, the Board and Group Leadership Team held a strategy session over 2 days in October 2020. All Board members in office at that time attended the strategy session. These committee/working group meetings, update calls and strategy sessions are not included in the above table.

Board and Committee meetings in FY21 occurred over 2 full days, with half a day allocated to Committee meetings and 1.5 days allocated to the Board meeting. In April 2021, the Board adopted a new approach, with Committee meetings generally being held one week in advance of the Board meeting, allowing half a day to now be allocated to a Board strategy session before the formal Board meeting, which is still run over 1.5 days.

Directors' Report

Remuneration Report

On behalf of the Board and the People and Culture Committee, I am pleased to present our Remuneration Report for the year ended 30 April 2021

Helen Nash
Chair, People and Culture Committee

Our strong performance over the financial year could not have been possible without the dedication and commitment of our people. We are proud of how our leaders, team members, retailers, suppliers and customers have responded to the evolving COVID-19 restrictions, whilst managing an unprecedented level of demand across all our businesses. We are particularly proud of our frontline team members who have worked exceptionally hard to support our retailers and their communities during these challenging times.

The health and wellbeing of our people was paramount in such a challenging year and we adapted readily to the dynamic and differing state health regulations. In response to the pandemic, we extended our flexible working arrangements, established a hardship fund to support team members who were forced to self-isolate for extended periods and actively supported mental wellbeing. I am also pleased to say we continued to reward our people with pay increases, including applying Award increases at the customary time rather than to delayed timelines. We recognised our frontline Distribution Centre team members' contributions with additional payments via gift cards.

We did not access the Australian Government's Job Keeper subsidy program. We did access the New Zealand Government wage subsidy in the early phases of their lockdowns, but subsequently repaid this voluntarily.

Our remuneration framework

At Metcash we are passionate about '*Championing successful independents*', attracting, motivating and retaining key talent who drive sustainable company performance while embodying our Purpose, Vision and Values. Our executive pay comprises Fixed Pay, Short-Term Incentive ('STI') and Long-Term Incentive ('LTI') components and is designed to ensure that executives have a significant proportion of remuneration at risk, which is payable on the delivery of positive outcomes for shareholders. No significant changes were made to our executive remuneration structure in FY21.

We undertake annually a detailed market benchmarking review of our director fees and executive pay, comparing fixed and variable rewards, with data sourced through Aon Hewitt in their capacity as an independent specialist remuneration data provider. Each Metcash position is benchmarked against similar roles from our peer group, which includes 24 ASX listed organisations in a similar industry, both larger and smaller than Metcash, across measures of market capitalisation, revenue and assets. Our target position against our peer group is the 50th percentile, however our framework also enables us to reward deeply experienced high performing individuals.

Our performance and outcomes

FY21 was a standout year for Metcash with record sales and operating cashflow, and significant earnings growth. Our Pillars adapted quickly to the significant challenges associated with COVID-19, while continuing to execute our *MFuture* plans to further improve the competitiveness of our independent retail networks. While the shift in shopper behaviour, including rediscovering of local neighbourhood stores, was initially associated with the COVID-19 restrictions, management and our team members, led by KMP, have driven hard to ensure the success of *MFuture* and have underpinned the retention of new and returning shoppers, as reflected in our record sales performance for the year.

Group revenue (excluding charge-through sales) increased 9.9% to $14.3 billion. Including charge-through sales, Group revenue increased 10.1% to $16.4 billion with strong sales growth in all Pillars. The uplift in sales, together with our strong focus on costs and the contribution of our very successful acquisitions, led to EBIT increasing a significant 19.9% to $401.4 million. Underlying profit after tax increased 27.1% to $252.7 million, and was $239.0 million on a statutory basis. Underlying earnings per share increased 13.3% to 24.7 cents. Record operating cashflows of $475.5 million led to the Company being in a net cash position of $124.6 million at year end. The Company announced capital management initiatives including increasing the target dividend payout ratio from 60% to 70% of underlying profit after tax (commencing in FY21) and an Off-Market Buy-Back ('Buy-Back') of up to $175.0 million[1]. Total dividends for the year increased 40% to 17.5 cents per share which, together with the expected Share Buy-Back of ~$175.0 million, will result in ~$354.0 million[2] being returned to shareholders.

In addition to the standout financial performance, against very stretching targets, there was a significant improvement in the Company's 'Environmental, Social and Corporate Governance' (ESG) credentials as outlined in our Sustainability Report included in this year's Annual Report.

Last year the Board took several measures in response to the uncertainty associated with COVID-19. These included:

- Deferring scheduled remuneration increases for executive Key Management Personnel ('KMP');
- Determining STI and LTI vesting outcomes based broadly on pre-pandemic outcomes to avoid any undue benefit;
- Increasing the deferred component of the FY20 STI award; and
- Deferring scheduled Non-executive Director ('NED') fee increases.

[1] Metcash may vary the size of the Buy-Back depending on a number of factors including shareholder demand, market conditions and future capital requirements. If Metcash increases the Buy-Back it will not buy back more shares than allowed within its 10% limit under the Corporations Act.
[2] Reflects a Buy-Back of ~$175.0 million and excludes any FY22 potential dividends.

Directors' Report

GROUP REVENUE

$14.3 billion 9.9% INCREASE FROM FY20

GROUP EBIT

$401.4 million 19.9% INCREASE FROM FY20

UPAT

$252.7 million 27.1% INCREASE FROM FY20

DIVIDENDS PER SHARE

17.5 cents 40.0% INCREASE FROM FY20

TOTAL SHAREHOLDER RETURN

55.6%

FOR THE 12 MONTHS TO 30 APRIL 2021

SAFETY

+2.2%

IMPROVEMENT IN TOTAL RECORDABLE INJURY

GENDER EQUALITY

EMPLOYER OF CHOICE

AWARDED BY THE WORKPLACE GENDER EQUALITY AGENCY

EMPLOYEE ENGAGEMENT

+19%

IMPROVEMENT IN SURVEY RESULTS FROM FY20

Once the performance of the Group stabilised, the previously approved increases to remuneration were applied and KMP STI deferral percentages reverted to standard policy.

As part of the Aon Hewitt pay benchmarking review, some changes to KMP remuneration occurred in FY21. The Group CEO's remuneration has remained unchanged since his appointment in 2017 and, whilst no increase was applied to his fixed pay, there was an increase to his STI and LTI opportunity to better align his pay mix to market practice and increase the 'at risk' component of his total remuneration. The change takes his total remuneration to within the range of the market peer group benchmark. In keeping with our competitive pay policy of recognising strong performance and deep experience, an increase was applied to the CEO Food's remuneration package taking him to slightly below his position's market peer group benchmark.

Board fees remained below medians at between 81% and 99% of peer group benchmarks. Fees for the Chair of the Board remain within the good practice of between two-three times multiplier of a director fees.

Fees were increased by 5% for FY21, with the increase for the Chair of the Board delayed until December 2020. Fee increases since 2012 have remained below the average increases over the same period in our peer group.

For the first time since 2012, the Board will seek shareholder approval for an increase in the Board fees pool from $1.6 million to $2.0 million. This would allow for the appointment of a further director into the role that has remained vacant for some years. The proposed fee pool would be positioned at the average of the peer group of companies.

STI outcomes are based on KMP exceeding their already-stretching pool and scorecard targets. The Board have scrutinised the quality of the results and are satisfied management actions have strongly supported the delivery of these exceptional results. This year's STI payments, which ranged from 67% to 90% of maximum are therefore very appropriate. The Board also note that team members who participate in the broader STI scheme, sales incentive plans and other discretionary awards have been rewarded accordingly.

Our FY19 LTI vested at 90%, as we exceeded our underlying earnings per share CAGR target and exceeded our peer group index TSR by 6% per annum over the three years ended 30 April 2021.

As a result of the COVID-19-related uncertainty in the early months of the financial year, our FY21 LTI grant was postponed. As we did not issue the grant until after the Annual General Meeting ('AGM') in August 2020, the Group CEO's FY21 LTI grant will be put to shareholders for approval alongside the FY22 LTI grant at this year's AGM. Subject to shareholder approval, the same measures and timeline will apply to the Group CEO's FY21 LTI grant as all other participants.

I am very pleased to advise that Metcash has again been awarded an Employer of Choice citation by the Workplace Gender Equality Agency. This is recognition of our deep commitment to gender pay parity and gender equality in the workforce. This is the third consecutive year we have received this citation. Metcash was also awarded Gold level recognition under the Mental Health First Aider Skilled Workplace Program and was identified as a Flexready Certified organisation, which recognises leading employers who support flexible work practices. Additionally, we saw a 19% increase in our employee engagement results, which is particularly pleasing given the challenges of COVID-19.

In summary, I believe our remuneration framework and outcomes for the year deliver a balanced and equitable outcome for all stakeholders.

We have restructured our Report this year to make it more reader-friendly, without sacrificing our high level of disclosures. I trust you will find the Report informative.

Helen Nash
Chair, People and Culture Committee

Directors' Report

CONTENTS OF REPORT

Section 1.	Overview of the Remuneration Report	56
Section 2.	Remuneration governance	57
Section 3.	Snapshot of executive remuneration policy	58
Section 4.	Incentive plan operation	59
Section 5.	Business Performance and At-Risk Remuneration Outcomes	63
Section 6.	FY21 remuneration outcomes	64
Section 7.	KMP service agreements	68
Section 8.	Non-executive Director remuneration	68
Section 9.	Statutory disclosures	70

1. OVERVIEW OF THE REMUNERATION REPORT

The Directors present the Remuneration Report for the Company and its controlled entities (the 'Group') for the year ended 30 April 2021 ('FY21'). This report forms part of the Directors' Report and has been audited in accordance with section 308(3C) of the *Corporations Act 2001* and Australian Accounting Standards.

The report sets out the remuneration arrangements for the Group's Key Management Personnel (KMP), comprising its Non-executive Directors ('NED'), 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 FY21 are listed below.

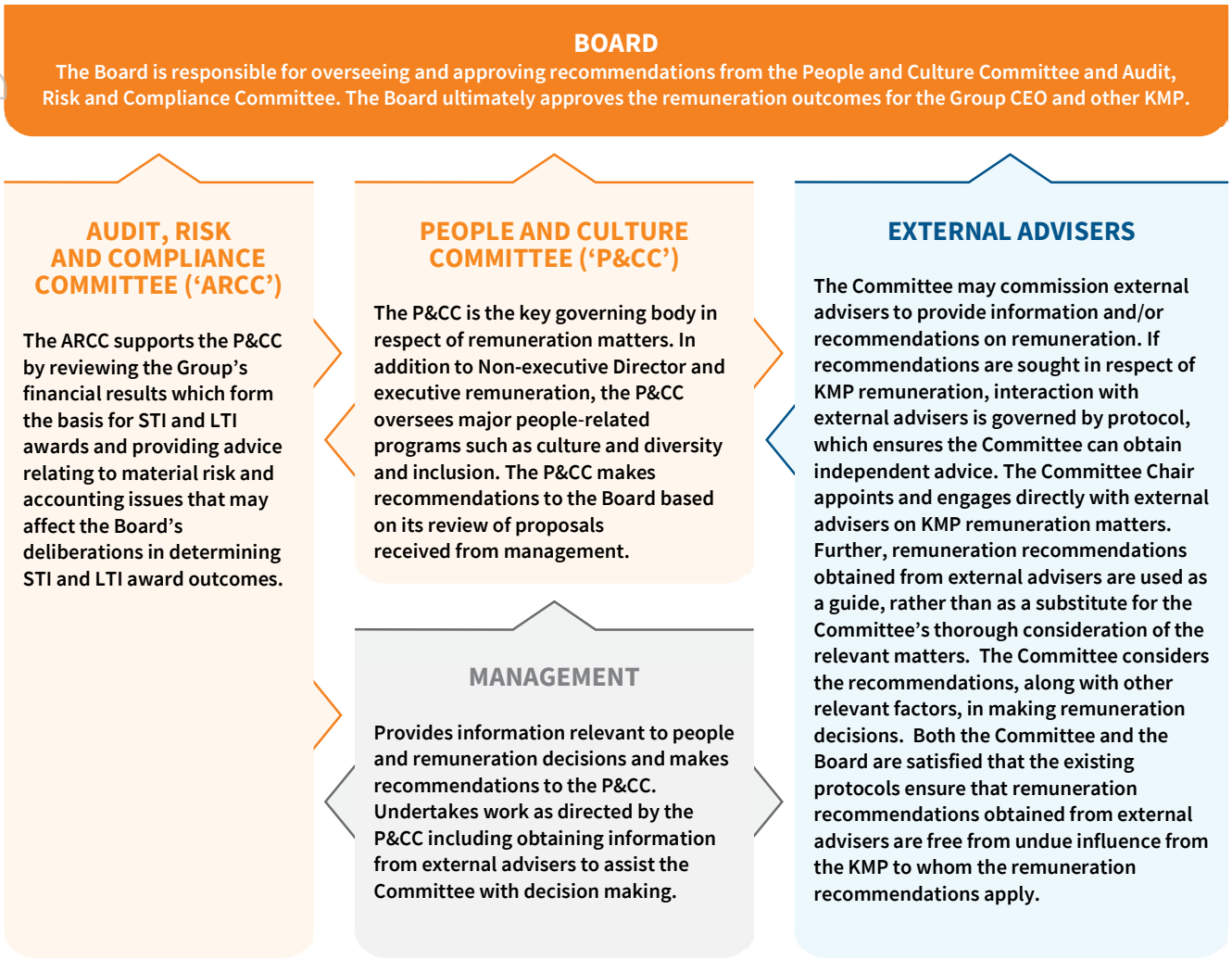
Name	Position	Term as KMP in FY21
Non-executive Directors		
Robert Murray	Chair	Full year
Peter Birtles	Director	Full year
Tonianne Dwyer	Director	Full year
Murray Jordan	Director	Full year
Helen Nash	Director	Full year
Christine Holman	Director	Commenced 14 September 2020
Executive Director		
Jeff Adams	Group Chief Executive Officer ('Group CEO')	Full year
Group Executives		
Alistair Bell	Group Chief Financial Officer ('Group CFO')	Commenced 7 December 2020
Brad Soller	Group Chief Financial Officer ('Group CFO')	1 May 2020 to 7 December 2020
Chris Baddock	Chief Executive Officer, Australian Liquor Marketers ('ALM')	Full year
Scott Marshall	Chief Executive Officer, Food	Full year
Annette Welsh	Chief Executive Officer, Independent Hardware Group ('IHG')	Full year

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

Directors' Report

2. REMUNERATION GOVERNANCE

The following diagram illustrates Metcash's remuneration governance framework.



The People & Culture Committee engages and considers advice from independent remuneration consultants where appropriate in relation to remuneration matters and Non-executive Director fees. During the year, no remuneration recommendations as defined in section 9B of the *Corporations Act 2001* were provided.

Directors' Report

3. SNAPSHOT OF EXECUTIVE REMUNERATION POLICY

Our Remuneration Principles

Purpose, Vision & Values

Enabling our people to unleash their passion and give local Independents a fighting chance.

Market competitive

Attracting and retaining people who can make a difference in '*Championing successful independents*'.

Performance based

Rewarding the individual contributions made to empowering our local Independents who turn postcodes into communities.

Shareholder alignment

Standing side by side with our local Independents through the generations, to sustain long-term value for shareholders.

Fair and simple

Making it easy to see how we recognise those who make their mark in our business.

Our Remuneration Framework

Fixed remuneration

Salary, superannuation and salary sacrificed benefits. Fixed Remuneration is set at a level that is competitive in the market with reference to comparably sized peers. Fixed Remuneration is referred to as Total Employment Cost ('TEC').

Short-Term Incentive

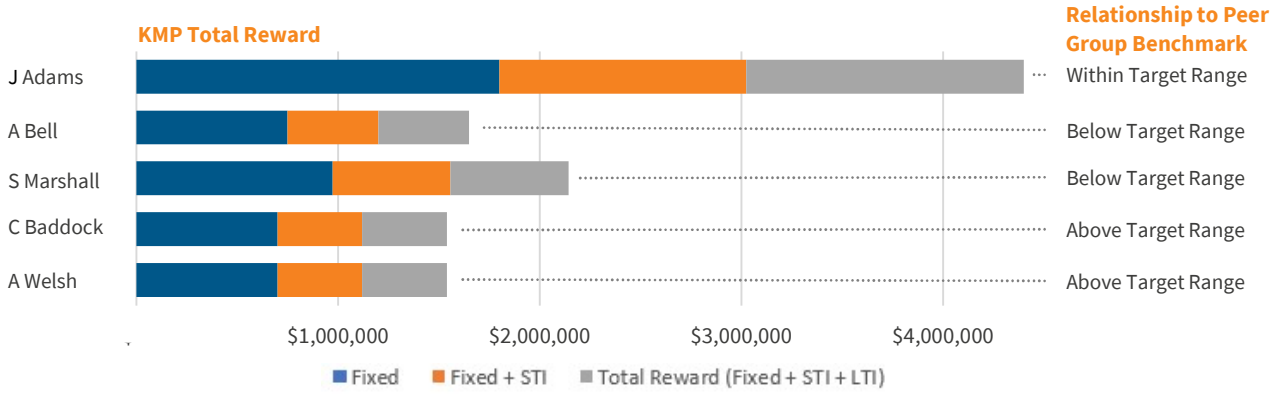
12-month performance period. STI pool is distributed when threshold financial performance is met and scaled based on performance up to a prescribed maximum. Performance is then assessed against a scorecard of financial (60%) and strategic (40%) objectives and modified by a behavioural rating. 33% of the Group CEO and 25% of Other KMP's vested awards will be deferred for 1 year into Performance Rights.

Long-Term Incentive

3-year performance period. Delivered in Performance Rights. Performance is assessed against Return on Funds Employed (ROFE) (50%) and Absolute Total Shareholder Return (TSR) (50%).

KMP Target Remuneration

KMP Target Reward comprises the three framework components above (Fixed or TEC in blue, STI in orange and LTI in grey) and is reviewed annually in line with the above principles. A review may result in no adjustment to Target Remuneration.



Directors' Report

4. INCENTIVE PLAN OPERATION

4.1 'At-risk' STI plan

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

Feature	Description
Delivery	Delivered in a combination of cash and deferred equity (33% for the Group CEO and 25% for other KMP). Deferred equity comprises performance rights that convert into fully paid ordinary shares in Metcash, which only become unrestricted at the end of the deferral period.
Performance period	1 May each year to 30 April the following year.
Eligibility	The Group CEO and all other KMP participate in the STI plan. The Group CEO and Group CFO participate in the Group STI pool. The Pillar CEOs participate in their respective Pillar STI pools which are determined by a combination of their respective pillar EBIT and the consolidated Group EBIT.
Performance Measures	STI awards are paid out of the Group and Pillar STI pools. STI pools are only released for distribution when the threshold Group or Pillar underlying EBIT budget result, as applicable, is achieved. The STI pools are generally made available for distribution on the following basis:

Achievement	Distribution of STI pool
Below threshold 95% of budget EBIT	0% - no pool is available for distribution
Threshold 95% of budget EBIT	50% of the respective STI pools
Budget or 'Target' EBIT	100% of the respective STI pools
Over-achievement 105% of budget EBIT	150% of the respective STI pools

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

The STI Balanced Scorecard performance measures vary for each KMP based on the budgets and strategies for their respective pillars.

Balanced Scorecard

Financial & Value Creation Objectives (60%)	Measure	Group Target	Group Outcome	Threshold	Target	Stretch
Deliver Financial Results	Sales revenue[1]	$15.1 billion	$16.4 billion	- 2.5%	Budget	+ 2.5%
	UPAT	$211.8 million	$252.7 million	- 5.0%	Budget	+ 5.0%
	EBIT	$349.2 million	$401.4 million	- 5.0%	Budget	+ 5.0%
	ROFE	24.5%	28.6%	- 50bps	Budget	+ 50bps
	Cash conversion	103.1%	114.2%	- 1000bps	Budget	+ 1000bps
	Project Horizon	95% of stretch targets	95% of stretch targets	- 5.0%	Budget	+ 5.0%

Strategic Objectives (40%)	Measure	Group Target
Our People	Safety (TRIFR)[2]	Improvement of 5% on FY20 result
	Engagement	Improvement of 5% on FY20 result
Our Business	Business metrics[3]	95% of stretch targets
	MFuture program	95% of stretch targets

[1] Sales revenue (including charge-through sales).
[2] Total Recordable Injury Frequency
[3] Examples of business metrics include Team Score (target = maintain FY20 result), Loyalty Programs (target = 12% uplift on FY20), Cost Management (target = achieve approved budget) and IBA Store Count (target =10% uplift on FY20 result).

Directors' Report

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

Our Metcash Behaviours are:

Accountability	Continuous Improvement	Team Work	Think Customer
I am open and honest, accepting responsibility and delivering on promises. I act with integrity.	I learn from success and failure and seek out a better way, and I collaborate with others to reach the best outcome.	I am responsible for the strength and diversity of my team, and I own my development. I build a strong culture.	I understand and anticipate my customer / retailer / supplier / shopper needs and drive innovation for mutual benefit.

The maximum reward is only paid on achievement of 'stretch' outcomes, which include:

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

With the commencement of a major program of work, *Project Horizon*, scorecard performance measures for FY22 will include specific objectives in relation to its delivery. These will comprise quality and timing of the deliverables, cost of the program and value of the benefits realised.

Target setting

Challenging performance targets are set against each performance measure following a rigorous budget setting process that considers many factors including market conditions. This process includes draft budgets being initially prepared by leadership teams, followed by Pillar CEO and CFO reviews. Once these reviews are complete, including the Pillar CEO and CFO being confident in them, these draft budgets are thoroughly reviewed and challenged by the Group CEO and Group CFO. Following satisfaction at this level, each Pillar presents the draft budgets to the Board during a two-day process during which they are challenged on all matters to ensure the Board is comfortable that the budgets are sufficiently challenging and achievable.

STI opportunities

The STI opportunities as a percentage of TEC for KMP are outlined below:

Position	Below threshold % of TEC	Threshold % of TEC	Target % of TEC	Maximum % of TEC
Group CEO	0%	17%	68%	153%
Other KMPs	0%	15%	60%	135%

The Group CEO's pay mix reflects peer group practice for Group CEOs and is therefore different to other KMP.

Deferred vesting criteria

The deferred performance rights are conditional and only vest if the executive remains employed by the Company up to and including 15 April of the year following the performance period. Shares are issued to participants by 25 April and are then restricted from trading until the annual results release which typically occurs in late June.

Valuing deferred awards

The number of performance rights issued to participants is calculated by dividing 33% (Group CEO) and 25% (other KMP) of the STI award dollar value by the volume weighted average price (VWAP) of Metcash ordinary shares over the 20 trading days prior to the end of the performance period which ends on 30 April.

Board discretion

The Board may exercise discretion to adjust the STI pool to more appropriately reflect the performance of the Group or a specific Pillar. The Board also retains discretion to adjust vesting outcomes in any circumstances to ensure they are appropriate.

Clawback

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

Directors' Report

4.2 At-risk' LTI plan

The Group's LTIs are designed to enable Metcash to attract and retain key executives, whilst incentivising these executives to achieve challenging hurdles aligned to shareholder value.

Feature	Description
Delivery	Delivered in Performance Rights. Each Performance Right is a right to acquire Metcash shares at no cost, subject to the satisfaction of performance and service conditions.
Performance period	Three-year performance period.
Eligibility	The Group CEO and all other KMP participate in the LTI plan.
Performance measures	The Group had three active LTI plans operating in FY21. Current year LTI grant: • FY21-FY23 LTI – this grant was issued to KMP (excluding the Group CEO) during FY21 and is subject to two performance conditions: ROFE and TSR over a three-year period from 1 May 2020 to 30 April 2023. Prior period LTI grants: • FY20-FY22 LTI – this grant was issued to KMP during FY20 and is subject to two performance conditions: ROFE and TSR over a three-year period from 1 May 2019 to 30 April 2022. • FY19-FY21 LTI – this grant was issued to KMP during FY19 and is subject to two performance conditions: RTSR and UEPS CAGR over a three-year period from 1 May 2018 to 30 April 2021. **FY20-FY22 and FY21-FY23 LTI grants** *ROFE* ROFE is calculated as underlying EBIT divided by the average of funds employed at the beginning and end of the financial year. The overall ROFE result will be determined as the average of the individual ROFE result in respect of each of the three financial years over the performance period. *TSR* TSR is measured as the growth in share price over the performance period plus dividends paid to shareholders and assumes dividends are reinvested when they are paid. The opening and closing share prices used in the calculation are typically set with reference to the VWAP of Metcash shares over the 20 business days prior to the end of the Metcash financial year. The Board may exercise discretion to include other share capital transactions, including buybacks and otherwise adjust the calculation for capital transactions as deemed appropriate. The TSR result is expressed as a percentage and reported as the compound annual growth rate over the performance period. **FY19-FY21 LTI grant** *Relative Total Shareholder Returns ('RTSR')* RTSR is measured against a group of selected peers, being consumer staples companies in the ASX 300 as at the beginning of the LTI plan period on 1 May. The TSR of those peer companies is multiplied against an index weighting. The sum of the weighted TSRs ('Index TSR') is the score against which Metcash's TSR is compared. *Metcash Underlying Earnings per Share Compound Annual Growth Rate ('UEPS CAGR')* UEPS CAGR is calculated over the three-year performance period of the LTI against the base year UEPS at grant date.

Directors' Report

Feature	Description
Vesting hurdles	**FY20-FY22 and FY21-FY23 LTI grants** The FY20-FY22 and FY21-FY23 LTI grants operate under the same terms. *ROFE* The rights vest against the ROFE hurdle as follows:

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

Vesting occurs on a straight-line basis between each hurdle, with nil vesting below threshold. Full vesting will only occur if Metcash achieves a ROFE of greater than 26% over the performance period.

TSR

The rights vest against the TSR hurdle as follows:

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

Vesting occurs on a straight-line basis between each hurdle, with nil vesting below threshold. Full vesting will only occur if Metcash achieves a TSR CAGR of 10% or higher over the performance period. The opening VWAP in relation to the FY20-FY22 LTI was $2.71 per share (VWAP to 30 April 2019) and the FY21-FY23 LTI was $2.58 per share (pre-COVID-19 VWAP to 16 March 2020).

FY19-FY21 LTI grant

RTSR

The rights vest against the RTSR hurdle as follows:

RTSR vesting scale	Vesting %
Less than Index TSR	0%
Equal to Index TSR	50%
Between Index TSR and Index TSR + 10%	Straight-line pro-rata
Index TSR + 10% or above	100%

Full vesting will only occur if Metcash's RTSR is 10% or higher than the peer companies over the performance period. The opening VWAP in relation to the FY19-FY21 LTI was $3.26 per share.

UEPS CAGR

The rights vest against the UEPS CAGR hurdle as follows:

UEPS CAGR vesting scale	UEPS CAGR	Vesting %
Base year UEPS (cents per share)	20.8	
Threshold	+1%	25%
Target	+2%	50%
Stretch	+3%	75%
Equal to or above maximum	+4%	100%

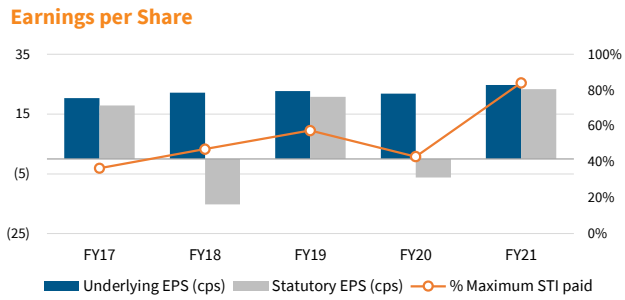
Vesting occurs on a straight-line basis between each hurdle, with nil vesting below threshold. Full vesting only occurs if Metcash achieves an UEPS CAGR of greater than 4% over the performance period. The FY18 base year UEPS was restated to 20.8 cents per share to reflect the application of the AASB 16 *Leases* accounting standard so that it is consistent with the current accounting policy.

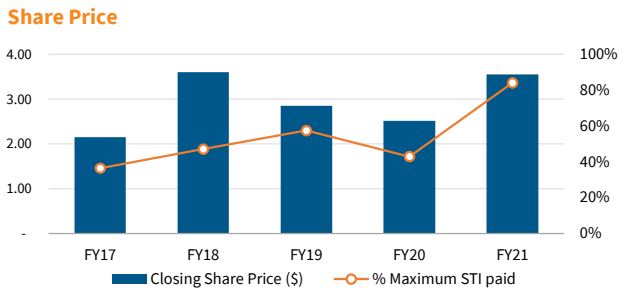
Board discretion	The LTI is subject to the Board's absolute discretion at all times.
Clawback	KMP LTI awards are subject to clawback for cause or material misstatement of the Group's financial statements.

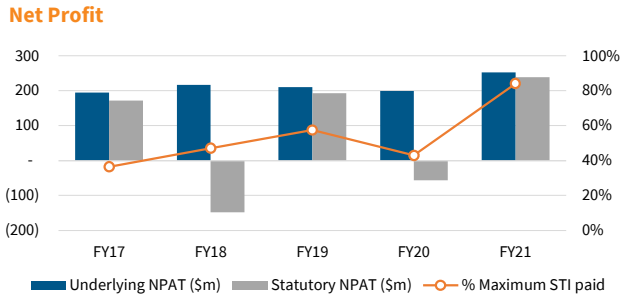
Directors' Report

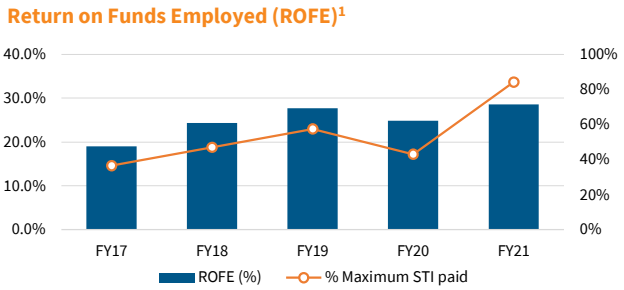
5. BUSINESS PERFORMANCE AND AT-RISK REMUNERATION OUTCOMES

The charts below show Metcash's financial performance and percentage of maximum STI paid to KMP in the five-year period ended 30 April 2021.









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

Other Group performance metrics over the last five years were as follows:

Financial year	FY17	FY18	FY19	FY20	FY21
Revenue ($b)	12.3	12.4	12.7	13.0	14.3
Cash realisation ratio (%)	118%	101%	92%	33%	114%
Dividends declared per share (cents)	4.5	13.0	13.5	12.5	17.5
Average STI payments to KMP as a % of maximum	36.0%	47.0%	57.5%	43.0%	84.1%

In FY21, the Group and the pillars have performed exceptionally well, delivering EBIT results against already stretching targets at a 19.9% increase on FY20 outcomes in extremely challenging circumstances. Accordingly, the STI outcomes awarded to KMP ranged from 67% to 90% of maximum.

In FY20, whilst the Group and the Food pillar delivered strong EBIT results, the Board exercised its discretion to reduce the overall STI award to the 'on target' level. The Liquor pillar was determined to have performed 'on target' and the Hardware pillar 'below target'.

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

In FY18, Hardware and Corporate delivered EBIT results at or above the maximum hurdle. The Liquor pillar performed at target level and the Food pillar performed between threshold and target.

In FY17, the Food pillar performed below threshold level, the Liquor pillar performed at target level and the Hardware pillar delivered earnings in excess of target.

Directors' Report

6. FY21 REMUNERATION OUTCOMES

Actual FY21 KMP remuneration

The table below reflects actual cash payments made or due to KMP in respect of performance during FY21. The table does not comply with IFRS requirements. The required statutory disclosures are shown in section 9 of this report:

KMP	Total employment cost $	FY21 STI cash [1] $	FY20 STI deferred [2] $	LTI [3] $	Total $
J Adams	1,800,000	1,612,774	600,000	1,239,017	5,251,791
A Bell[4]	298,755	259,923	-	-	558,678
B Soller (retired)[5]	562,007	379,354	214,200	614,343	1,769,904
C Baddock	700,000	607,163	168,000	-	1,475,163
S Marshall	970,834	864,547	214,200	614,343	2,663,924
A Welsh	700,000	640,238	28,643	136,129	1,505,010

1. Represents the cash component of the FY21 STI reward amount of 67% (Group CEO) and 75% (other KMP) payable in cash in July 2021. The deferred equity component of the FY21 STI reward of 33% (Group CEO) and 25% (other KMP), is not presented above because the reward is conditional upon the executive being employed by the Company on 15 April 2022. Shares are issued to participants by 25 April 2022 and are then restricted from trading until the close of 28 June 2022.
2. Represents the deferred equity component of the FY20 STI reward of 50% (Group CEO) and 40% (other KMP) which were deferred as equity. The KMPs have subsequently met the continuity of employment service condition. Accordingly, the performance rights have vested and the shares were issued to the KMPs in April 2021. The shares are restricted from trading until the close of 28 June 2021. The amounts presented above are based on the number of rights vested multiplied by the VWAP of Metcash shares over the 20 business days ending 16 March 2020 of $2.58 per share.
3. The FY19-FY21 LTI will partially vest during FY21 at 90%, subject only to the KMP remaining in employment until 15 August 2021. The amounts presented above are based on the number of rights that will vest multiplied by the VWAP of Metcash shares over the 20 business days until 30 April 2021 of $3.74 per share.
4. Mr Bell commenced employment on 1 September 2020 and was appointed as Group CFO on 7 December 2020, with a fixed remuneration of $750,000. The amounts disclosed above reflect Mr Bell's total fixed remuneration and actual STI award for the period from 7 December 2020 to 30 April 2021 as KMP. In addition, Mr Bell received total fixed remuneration of $201,245 and FY21 STI cash award of $175,086 as non-KMP relating to the period from 1 September 2020 to 7 December 2020.
5. Mr Soller retired as Group CFO on 7 December 2020 and will cease employment on 31 December 2021. The amounts disclosed above reflect Mr Soller's total fixed remuneration and actual STI and LTI award for the period from 1 May 2020 to 7 December 2020 as KMP. Mr Soller's fixed remuneration was increased to $928,200 with effect from 1 May 2020, in accordance with the customary annual review. In addition, Mr Soller received total actual FY21 remuneration of $613,374 as non-KMP relating to the period from 8 December 2020 to 30 April 2021. In line with Metcash's good leavers policy, Mr Soller retained (on a pro-rata basis) 175,946 and 115,542 of his FY20-FY22 and FY21-FY23 LTI performance rights, respectively, which will be tested in accordance with existing performance conditions.

FY21 STI outcomes

Metcash's performance in FY21 exceeded expectations. This was driven by the exceptional performance of our executive team.

Performance against each financial STI measure comfortably exceeded 'stretch' targets, allowing each STI Pool to be funded to its maximum level.

As outlined on the following page, these financial results combined with KMP exceeding expectations against their individual objectives, resulted in overall STI outcomes ranging from 67%-90% of maximum.

The Board views these FY21 STI outcomes as an appropriate recognition of the KMP's performance. This outcome also recognises that FY21 performance was reflected in strong outcomes for shareholders, customers and the broader workforce (who were also eligible for maximum bonus payments in FY21).

Metcash invited KPMG to provide an independent view on the reasonableness of the STI outcomes. KPMG concluded Metcash's FY21 STI scorecard outcomes appear reasonable in the context of the Company's:

- Financial position (strong balance sheet, FY21 performance exceeded stretch targets against all key financial metrics, no Job Keeper assistance utilised, all assistance from NZ COVID-19 wage subsidy repaid);
- Shareholder outcomes (shareholder returns have been strong, and dividends have increased); and
- Workforce outcomes (pay increases occurred as normal throughout the organisation, bonuses and other incentives commensurate to performance outcomes are to be paid for team members, employee engagement scores improved, and no major redundancies occurred during the year).

Directors' Report

The FY21 STI outcomes against each of the KMPs Balanced Scorecards are summarised below:

Balanced Scorecard Outcomes	J Adams Group CEO	A Bell Group CFO	C Baddock CEO ALM	S Marshall CEO Food	A Welsh CEO IHG
Financial & Value Creation Objectives (60%)					
Sales revenue[1]	Stretch	Stretch	Stretch	Stretch	Stretch
UPAT	Stretch	Stretch	N/A	N/A	N/A
EBIT	Stretch	Stretch	Stretch	Stretch	Stretch
ROFE	Stretch	Stretch	Stretch	Stretch	Stretch
Cash Conversion	Stretch	Stretch	N/A	N/A	N/A
Working Capital	N/A	N/A	On target	Above target	On target
Project Horizon Implementation Planning	On target	On target	On target	On target	On target
Strategic Objectives (40%)					
Our People					
Strong & Positive Culture	Stretch	Stretch	Stretch	Stretch	Above Target
Safety	Below target	Below target	Below target	Below target	Stretch
Our Business					
Improve Pillar Metrics	On target	N/A	On target	On target	Above target
MFuture program	Above target	N/A	Above target	Above target	Stretch
Finance costs (net)	N/A	Above target	N/A	N/A	N/A
Cost centre management	N/A	On target	N/A	N/A	N/A
Behaviours	Strong	Strong	Strong	Strong	Strong
Overall rating	**Stretch**	**Stretch**	**Stretch**	**Stretch**	**Stretch**
STI % of maximum awarded	**87%**	**86%**	**86%**	**88%**	**90%**

1. Sales revenue (including charge-through sales).

The table below reflects the KMP's FY21 STI outcomes when compared against target and maximum potential STI:

KMP	Target potential STI $	Maximum potential STI $	STI awarded % of maximum	STI cash[1] $	STI deferred[2] $	Total STI awarded $	Maximum STI forfeited $
J Adams	1,225,000	2,756,250	87.3%	1,612,774	794,351	2,407,125	349,125
A Bell[3]	180,149	405,335	85.5%	259,923	86,640	346,563	58,772
B Soller (retired)[4]	337,204	758,709	66.7%	379,354	126,451	505,805	252,904
C Baddock	420,000	945,000	85.7%	607,163	202,388	809,551	135,449
S Marshall	584,400	1,314,900	87.7%	864,547	288,182	1,152,729	162,171
A Welsh	420,000	945,000	90.3%	640,238	213,413	853,651	91,349

1 The cash component of the FY21 STI reward of 67% (Group CEO) and 75% (other KMP) is payable in cash in July 2021.
2 The deferred equity component of the FY21 STI reward of 33% (Group CEO) and 25% (other KMP) is deferred and released through the issue of Metcash performance rights, conditional upon the executive being employed by the Company on 15 April 2022. Shares are issued to participants by 25 April 2022 and are then restricted from trading until the close of 28 June 2022.
3 Mr Bell commenced employment on 1 September 2020 and was appointed as Group CFO on 7 December 2020, with a fixed remuneration of $750,000. The amounts disclosed above reflect Mr Bell's STI award for the period from 7 December 2020 to 30 April 2021 as KMP. In addition, Mr Bell received an STI award of $233,448 as non-KMP relating to the period from 1 May 2020 to 7 December 2020.
4 Mr Soller retired as Group CFO on 7 December 2020 and will cease employment on 31 December 2021. The amounts disclosed above reflect Mr Soller's STI award for the period from 1 May 2020 to 7 December 2020 as KMP. In addition, Mr Soller received an STI award of $329,574 as non-KMP relating to the period from 8 December 2020 to 30 April 2021.

Directors' Report

FY20 STI deferred equity component outcomes

In FY20, the Group's 'at risk' STI plan introduced a deferred equity component so that the majority of the KMP's performance pay is delivered in equity. The following table presents the vesting of the FY20 STI deferred equity component, following completion of the employment service condition on 15 April 2021:

Participant	Vesting date	No. of rights held	No. of rights vested	No. of rights forfeited
J Adams	15 April 2021	232,558	232,558	-
B Soller (retired)	15 April 2021	83,023	83,023	-
C Baddock	15 April 2021	65,116	65,116	-
S Marshall	15 April 2021	83,023	83,023	-
A Welsh	15 April 2021	11,102	11,102	-

The number of performance rights were calculated by dividing 50% (Group CEO) and 40% (other KMP) of the FY20 STI award dollar value by the VWAP of Metcash ordinary shares over the 20 trading days ending 16 March 2020 of $2.58 per share. The FY20 STI deferred equity component subsequently vested on 15 April 2021 following the KMPs completion of the service condition. These performance rights have now been released as shares and are restricted for trading until the close of 28 June 2021.

Long-term incentives

Details of LTI grants made to KMP during the financial year

The following FY21-FY23 LTI grant was made to KMP during FY21:

Participant	Grant date	Hurdle	Vesting date	No. of rights	Fair value per right $	Grant entitlement (% of TEC)[1]
J Adams[2]	-	-	-	-	-	-
A Bell[3]	11 December 2020	ROFE	15 August 2023	77,510	3.10	60%
		TSR	15 August 2023	77,510	2.15	
B Soller (retired)[4]	11 December 2020	ROFE	15 August 2023	103,779	3.10	60%
		TSR	15 August 2023	103,779	2.15	
C Baddock	11 December 2020	ROFE	15 August 2023	81,395	3.10	60%
		TSR	15 August 2023	81,395	2.15	
S Marshall	11 December 2020	ROFE	15 August 2023	103,779	3.10	60%
		TSR	15 August 2023	103,779	2.15	
A Welsh	11 December 2020	ROFE	15 August 2023	81,395	3.10	60%
		TSR	15 August 2023	81,395	2.15	

1. The grant entitlement is expressed as a percentage of the face value of performance rights divided by the participants' annual TEC at grant date.
2. As a result of the COVID-19-related uncertainty in the early months of the financial year, Mr Adams' FY21-FY23 LTI grant was not put forward to shareholders for approval at the 2020 AGM. Mr Adams' FY21-FY23 LTI grant will be put to shareholders for approval at the 2021 AGM. Subject to shareholder approval, the same measures and timeline will apply to Mr Adams' FY21 LTI grant as all other participants. In accordance with AASB 2 *Share-based payments*, the fair value of the share-based payment is to be determined at grant date (i.e., 2021 AGM date). For the purposes of this report, Mr. Adams' LTI expense for his services rendered during FY21 has been based on an estimate of the fair value of the performance rights.
3. Mr Bell was appointed Group CFO on 7 December 2020.
4. Mr Soller retired as Group CFO on 7 December 2020 and will cease employment on 31 December 2021. In FY21, Mr Soller was issued 207,558 performance rights in relation to the FY21-FY23 LTI grant. Mr Soller retained (on a pro-rata basis) 115,542 FY21-FY23 LTI performance rights, which remain on foot subject to existing performance hurdles and timeframes. The number of performance rights retained was determined on a pro-rata basis up to the date of cessation of employment. The balance of 92,016 performance rights were forfeited.

Directors' Report

FY19-FY21 LTI grant

The plan is expected to partially vest on 15 August 2021 at 90%, subject only to the active participants remaining in employment until 15 August 2021.

The FY19-FY21 LTI grant vesting results are set out below:

Performance condition	Weighting	Performance result	Vesting result (%)
UEPS CAGR	50%	UEPS CAGR performance over the three-year plan period was 5.2%	100%
RTSR	50%	RTSR performance over the three-year plan period was 6.0% above Index TSR	80%

The vesting of the FY19-FY21 LTI rights will be as follows:

Participant	Hurdle	No. of rights held	No. of rights expected to vest	No. of rights expected to be forfeited
J Adams	UEPS CAGR	184,049	184,049	-
	RTSR	184,049	147,239	36,810
B Soller	UEPS CAGR	91,257	91,257	-
	RTSR	91,257	73,006	18,251
S Marshall	UEPS CAGR	91,257	91,257	-
	RTSR	91,257	73,006	18,251
A Welsh	UEPS CAGR	20,221	20,221	-
	RTSR	20,221	16,177	4,044

FY20-FY22 LTI grant

The ATSR component is currently performing at the maximum level on the vesting scale. This interim performance assessment is based on a VWAP of $3.74 per share, measured across the 20 business days to 30 April 2021. In FY21, the Group provided for the ROFE component based on the maximum level of performance.

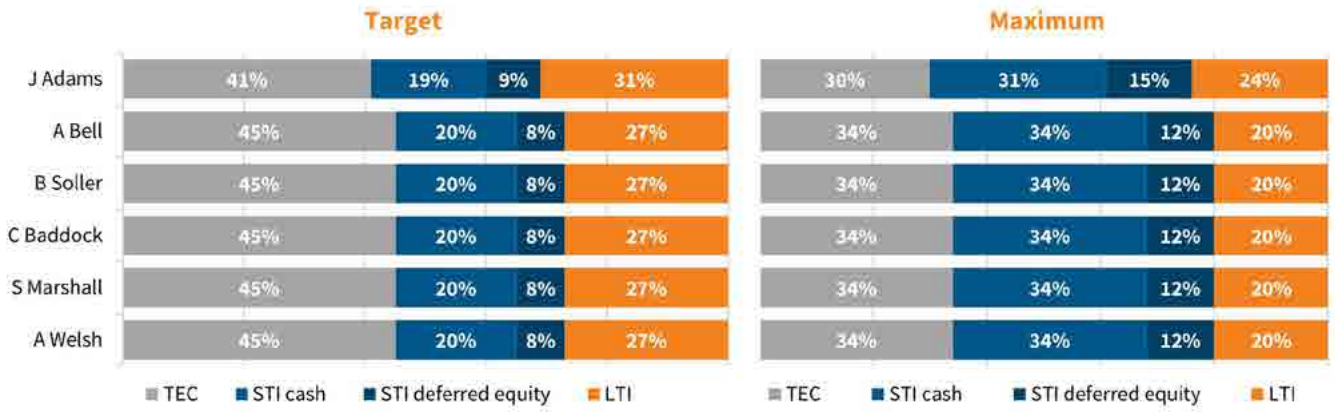
FY21-FY23 LTI grant

The ATSR component is currently performing at the maximum level on the vesting scale. This interim performance assessment is based on a VWAP of $3.74 per share, measured across the 20 business days to 30 April 2021. In FY21, the Group provided for the ROFE component based on the maximum level of performance.

Remuneration mix

The chart below outlines the FY21 remuneration mix for KMP at the end of the year including the deferral of the 33% (Group CEO) and 25% (other KMP) of STI 'at risk' equity component. Each remuneration component is shown as a percentage of total remuneration measured at Target and at Maximum earnings opportunity. LTI values have been measured at grant date, based on the face value of incentives granted in FY21.

The KMP remuneration weighting as a percentage of TEC during FY21 was as follows:



Directors' Report

7. KMP SERVICE AGREEMENTS

Name	Agreement term	Executive notice	Metcash notice	Redundancy
J Adams[1]	Four years (based on current 482 visa limitations)[1]	12 months	12 months	12 months
A Bell	Ongoing unless notice given	12 months	12 months	12 months
C Baddock	Ongoing unless notice given	12 months	12 months	12 months
S Marshall	Ongoing unless notice given	12 months	12 months	12 months
A Welsh	Ongoing unless notice given	12 months	12 months	12 months

1. Mr Adams' visa was renewed in February 2021 and was granted for a further four years.

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

In some circumstances on 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.

Minimum shareholding guidelines

Minimum shareholding guidelines have been implemented for all KMP commencing as of the effective date specified below or upon the date of appointment as KMP, whichever occurs later.

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

8. NON-EXECUTIVE DIRECTOR REMUNERATION

Remuneration 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.

All Non-executive Directors are paid a fixed annual fee. In addition, Committee fees are paid to recognise the additional responsibilities associated with participating on a Board Committee. The fixed fee to the Board Chair is to remunerate the Chair for all responsibilities, including participating on any Board Committees.

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.

Aggregate fee limit

Non-executive Director fees are limited to a maximum aggregate amount approved by shareholders. The Board intends to propose an increase in the fee limit to $2,000,000 for approval by shareholders at the 2021 AGM. The proposed increase reflects an update on the existing limit of $1,600,000 which was approved in 2012.

As a reasonableness test, this pool increase was assessed against comparison data provided by Aon Hewitt which indicated that the peer group average pool limit was $2,000,000. Additionally, consideration was given to 'fair fee' criteria including the pool being no greater than two times total NED annual fees. The Metcash fee limit of $2,000,000 sits within that criterion.

Minimum shareholding guidelines

Minimum shareholding guidelines have been implemented for all Non-executive Directors of one year's base fees to be accumulated in five years from the effective date of 1 May 2019 or upon their date of appointment as a Non-executive Director, whichever occurs later.

Directors' Report

Non-executive Director fee structure

Consistent with all executive remuneration practices in Metcash, extensive annual independent data benchmarking is undertaken on Board fees. Averaged over the last eight years, the Board fees have increased by 2.25% per annum and this results in Metcash sitting below the market benchmark of our peer group. An increase in fees to close the gap was made in FY21 which moves the position to between 81% and 99% of the market benchmark.

	FY21 $[1,2]	FY20 $[1]
Board		
Chair	451,474	429,975
Non-executive Director	153,007	145,721
Committee		
Audit, Risk & Compliance		
Chair	36,558	34,817
Member	16,444	15,661
People & Culture		
Chair	36,558	34,817
Member	16,444	15,661
Nomination		
Chair	-	-
Member	-	-

1. Per annum fees as at the end of the financial year, including superannuation.
2. The increase in per annum fees was effective 1 May 2020 except for the Chairman of the Board which was effective 1 December 2020.

The Non-executive Directors did not receive a fee increase in FY20.

Non-executive Director remuneration

Name	Financial year	Fees $	Superannuation $	Total $
R Murray	FY21	417,352	21,581	438,933
	FY20	409,051	20,924	429,975
P Birtles	FY21	170,057	16,155	186,212
	FY20	110,536	10,501	121,037
T Dwyer	FY21	160,873	15,283	176,156
	FY20	164,875	15,663	180,538
M Jordan	FY21	169,767	16,128	185,895
	FY20	161,683	15,360	177,043
H Nash	FY21	181,211	8,354	189,565
	FY20	168,638	10,304	178,942
C Holman[1]	FY21	90,271	8,576	98,847
	FY20	-	-	-
W Tang (resigned)	FY21	-	-	-
	FY20	85,972	8,167	94,139
A Brennan (resigned)	FY21	-	-	-
	FY20	49,127	4,667	53,794
F Balfour (retired)	FY21	-	-	-
	FY20	54,958	5,221	60,179
Total	**FY21**	**1,189,531**	**86,077**	**1,275,608**
	FY20	**1,204,840**	**90,807**	**1,295,647**

1. Ms Holman was appointed a Non-executive Director on 14 September 2020.

Directors' Report

Non-executive Director shareholdings

Name	Balance at 1 May 2020	Acquired during the year	Balance at 30 April 2021	Balance at report date
Directors				
R Murray	84,005	-	84,005	84,005
P Birtles	40,000	-	40,000	40,000
T Dwyer	60,000	-	60,000	60,000
M Jordan	42,651	14,790	57,441	57,441
H Nash	37,431	13,758	51,189	51,189
C Holman[1]	-	30,000	30,000	30,000
	264,087	**58,548**	**322,635**	**322,635**

1. Ms Holman was appointed a Non-executive Director on 14 September 2020.

9. STATUTORY DISCLOSURES

Fixed and at-risk remuneration

KMP	Year	Fixed remuneration $	STI cash[1] $	STI deferred[2,3] $	Super-annuation $	Leave[4] $	LTI (share-based payments) $	Total $	Performance - related %
J Adams	FY21	1,800,000	1,612,774	697,176	-	69,099	1,385,992	5,565,041	66.4%
	FY20	1,800,000	600,000	300,000	-	90,464	373,174	3,163,638	40.2%
A Bell[5]	FY21	290,113	259,923	43,320	8,642	35,208	47,614	684,820	51.2%
	FY20	-	-	-	-	-	-	-	-
B Soller	FY21	548,940	379,354	170,326	13,067	167,528	502,350	1,781,565	59.1%
(retired)[6]	FY20	871,575	321,300	107,100	20,925	69,178	146,547	1,536,625	37.4%
C Baddock	FY21	678,419	607,163	185,194	21,581	(8,106)	280,130	1,764,381	60.8%
	FY20	548,421	252,000	699,492	17,503	43,253	28,880	1,589,549	61.7%
S Marshall	FY21	949,253	864,547	251,191	21,581	29,275	570,642	2,686,489	62.8%
	FY20	871,575	321,300	107,100	20,925	15,347	133,212	1,469,459	38.2%
A Welsh	FY21	678,419	640,238	130,360	21,581	22,340	212,481	1,705,419	57.6%
	FY20	158,083	42,964	4,990	5,251	66,470	6,652	284,410	19.2%
M Laidlaw	FY21	-	-	-	-	-	-	-	-
(retired)[7]	FY20	729,075	360,000	-	20,925	18,855	152,199	1,281,054	40.0%
Total	**FY21**	**4,945,144**	**4,363,999**	**1,477,567**	**86,452**	**315,344**	**2,999,209**	**14,187,715**	**62.3%**
Total	**FY20**	**4,978,729**	**1,897,564**	**1,218,682**	**85,529**	**303,567**	**840,664**	**9,324,735**	**42.4%**

1. The cash component of the FY21 STI reward of 67% (Group CEO) and 75% (other KMP) is payable in cash in July 2021. The cash component of the FY20 STI reward of 50% (Group CEO) and 60% (other KMP) was paid in cash in July 2020.
2. The deferred equity component of the FY21 STI reward of 33% (Group CEO) and 25% (other KMP) is deferred and released through the issue of Metcash performance rights, conditional upon the executive being employed by the Company on 15 April 2022. Shares are issued to participants by 25 April 2022 and are then restricted from trading until the close of 28 June 2022. The fair value of the deferred share component is amortised over the two-year performance period.
3. The deferred equity component of the FY20 STI reward of 50% (Group CEO) and 40% (other KMP) vested during the year. Shares were issued to participants in April 2021 and are restricted from trading until the close of 28 June 2021. The fair value of the deferred share component is amortised over the two-year performance period. Mr Baddock's FY20 STI deferred included a buy-out grant awarded to him upon commencement of his employment and appointment as CEO ALM.
4. Includes changes in annual and long service leave entitlements.
5. Mr Bell commenced employment on 1 September 2020 and was appointed as Group CFO on 7 December 2020, with fixed remuneration of $750,000. The amounts disclosed above reflect Mr Bell's remuneration for the period from 7 December 2020 to 30 April 2021 as KMP. In addition, Mr Bell received total remuneration of $478,586 as non-KMP relating to the period from 1 September 2020 to 7 December 2020.
6. Mr Soller retired as Group CFO on 7 December 2020 and will cease employment on 31 December 2021. The amounts disclosed above reflect Mr Soller's remuneration relating to the period from 1 May 2020 to 7 December 2020 as KMP. In addition, Mr Soller received (a) total remuneration of $861,165 as non-KMP relating to the period from 8 December 2020 to 30 April 2021 and (b) is expected to receive total remuneration of $1,028,722 as non-KMP relating to the period 1 May 2021 to 31 December 2021. The terms of Mr Soller's employment prohibits him from accepting employment at a competitor company for six months following his cessation of employment on 31 December 2021. In line with Metcash's good leavers policy, Mr Soller retained 175,946 and 115,542 of his FY20-FY22 and FY21-FY23 LTI performance rights, respectively, which will be tested in accordance with existing performance conditions.
7. Mr Laidlaw retired as CEO IHG on 30 April 2020.

Directors' Report

KMP performance rights holdings

Name	Balance at 1 May 2020	Granted	Vested/ Exercised[1]	Forfeited	Balance at 30 April 2021	Balance at report date
J Adams	1,278,706	232,558	(547,858)	(152,504)	810,902	810,902
A Bell[2]	-	155,020	-	-	155,020	155,020
B Soller (retired)[3]	567,338	290,581	(209,213)	(174,704)	474,002	474,002
C Baddock	154,982	227,906	(65,116)	-	317,772	317,772
S Marshall	539,806	290,581	(190,656)	(52,059)	587,672	587,672
A Welsh	121,480	173,892	(39,606)	(13,786)	241,980	241,980
Total	**2,662,312**	**1,370,538**	**(1,052,449)**	**(393,053)**	**2,587,348**	**2,587,348**

1 As foreshadowed in the FY20 financial report, a total of 577,627 performance rights from the FY18-FY20 LTI plan partially vested on 15 August 2020. The vested shares were acquired on market and allocated to the participants on 15 August 2020. In addition, a total of 474,822 performance rights were granted to the KMPs and have then subsequently vested in relation to the deferred component of the FY20 STI plan.
2 Mr Bell commenced employment on 1 September 2020 and was appointed as Group CFO on 7 December 2020.
3 As set out in section 6, 164,263 performance rights held by Mr Soller in relation to the FY19-21 LTI plan are expected to vest on 15 August 2021. Mr Soller retained (on a pro-rata basis) 175,946 and 115,542 of his FY20-FY22 and FY21-FY23 LTI performance rights, respectively, which will be tested in accordance with existing performance conditions. The number of rights retained was determined on a pro-rata basis up to the date of Mr Soller's cessation of employment on 31 December 2021. The balance of the performance rights in relation to the FY20-FY22 and FY21-FY23 LTI plans were forfeited.

KMP shareholdings

Name	Balance at 1 May 2020	Acquired during the year[1]	Other adjustments[2]	Balance at 30 April 2021	Balance at report date
J Adams	-	547,858	-	547,858	547,858
A Bell	-	-	-	-	-
B Soller (retired)	184,927	209,213	(394,140)	-	-
C Baddock	221,400	65,116	-	286,516	286,516
S Marshall	196,713	190,656	-	387,369	387,369
A Welsh	32,603	39,606	-	72,209	72,209
Total	**635,643**	**1,052,449**	**(394,140)**	**1,293,952**	**1,293,952**

1 Includes vesting of shares in relation to Metcash deferred STI and LTI plans.
2 Reflects changes in KMP composition following retirement or resignation.

This concludes the Remuneration Report.

Directors' Report

Other disclosures

Unissued shares under share options and performance rights

At the date of this report, there were 6,496,163 performance rights (6,463,229 at the reporting date). There were no share options on issue at the reporting date or at the date of this report. Refer to note 19 of the financial statements for further details regarding performance rights.

Shares issued as a result of options and performance rights

During the year, a total of 1,022,632 shares and 619,892 shares were acquired on market in relation to the vesting of the FY18-FY20 LTI grant and FY20 STI deferred equity component, respectively, and these shares were issued to employees and executives. There were no other shares issued to employees or executives during or since the end of the financial year in respect of the exercise of options or performance rights.

Indemnification of Auditors

Pursuant to the terms of engagement the Company has with its auditors, EY Australia, the Company has agreed to indemnify EY Australia to the extent permitted by law and professional regulations, against any losses, liabilities, costs or expenses incurred by EY Australia where they arise out of or occur in relation to any negligent, wrongful or wilful act or omission by the Company. No payment has been made to EY Australia by the Company pursuant to this indemnity, either during or since the end of the financial year.

Non-audit services

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

The auditor's independence declaration for the year ended 30 April 2021 has been received and is included on page 117.

EY received or are due to receive $457,000 for the provision of non-audit services relating to tax compliance and advisory.

Subsequent events

On 28 June 2021, Metcash announced that it has increased its ownership in Total Tools Holdings (TTH) from 70% to 85% for an acquisition cost of $59.4 million. Metcash has also increased its debt facility to TTH from $40 million to $65 million. TTH has significant growth opportunities and this increase, together with a portion of the consideration for the additional 15% holding, is expected to help fund TTH's growth plans. This includes expansion of the store network and the acquisition of an ownership interest in a select number of stores.

In addition, the Group also announced that it is undertaking an Off-Market Buy-Back ('Buy-Back') of up to approximately $175.0 million[1]. This follows the Board's assessment of the Group's ability to distribute excess capital to shareholders having regard to: an improvement in the level of economic certainty; its near-term capital expenditure and working capital requirements; opportunities to grow and create shareholder value; while also maintaining a strong balance sheet with low gearing. Based on an expected Buy-Back of approximately $175.0 million, the Share Buy-Back, together with dividends for FY21, will result in approximately $354.0 million[2] being returned to shareholders.

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

Rounding

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

Signed in accordance with a resolution of the Directors.

Jeff Adams
Director
Sydney, 28 June 2021

[1] Metcash may vary the size of the Buy-Back depending on a number of factors including shareholder demand, market conditions and future capital requirements. If Metcash increases the Buy-Back it will not buy back more shares than allowed within its 10% limit under the *Corporations Act*.
[2] Reflects a Buy-Back of ~$175.0 million and excludes any FY22 potential dividends.

Financial Report

For the year ended 30 April 2021

Statement of Comprehensive Income 74
Statement of Financial Position 75
Statement of Changes in Equity 76
Statement of Cashflows 77

Notes to the Financial Statements
1. Corporate Information 78
2. Segment Information 78
3. Other Income And Expenses 79
4. Income Tax 80
5. Dividends 81
6. Trade Receivables And Loans 82
7. Right-Of-Use Assets, Lease Receivables And Lease Liabilities 84
8. Equity-Accounted Investments 86
9. Property, Plant And Equipment 87
10. Intangible Assets 88
11. Interest-Bearing Borrowings 90
12. Provisions 90
13. Put Options And Other Financial Liabilities 91
14. Contributed Equity And Reserves 92
15. Reconciliation Of Cashflows From Operating Activities 93
16. Financial Risk Management 93
17. Capital Management 96
18. Related Party Disclosures 97
19. Share-Based Payments 98
20. Information Relating To Metcash Limited (The Parent Company) 100
21. Auditors Remuneration 101
22. Earnings Per Share 101
23. Business Combinations 102
24. Commitments And Contingent Liabilities 103
25. Subsequent Events 104

Appendix A – Summary Of Significant Accounting Policies 105
Appendix B – Information On Subsidiaries 112
Appendix C – Equity-accounted Investments 115

Directors' Declaration 116

Auditor's Independence Declaration 117
Independent Auditor's Report 118

Statement of Comprehensive Income

For the year ended 30 April 2021

	Notes	FY21 $m	FY20 $m
Sales revenue	2	14,315.3	13,025.4
Cost of sales		(12,834.0)	(11,712.7)
Gross profit		**1,481.3**	**1,312.7**
Other income	3	24.0	25.6
Share of profit from equity-accounted investments	8	20.1	5.3
Employee benefit expenses	3	(727.2)	(651.4)
Depreciation and amortisation	3	(163.7)	(157.2)
Lease expenses	3	(69.2)	(73.0)
Provisions for impairment, net of reversals	3	(42.9)	(28.3)
Other expenses		(121.0)	(98.8)
Finance costs, net	3	(42.6)	(52.0)
Significant items	3	(17.0)	(268.5)
Profit before income tax		**341.8**	**14.4**
Income tax expense	4	(100.4)	(69.6)
Net profit/(loss) for the year		**241.4**	**(55.2)**
Other comprehensive (loss)/income for the year, net of tax		(1.8)	0.7
Total comprehensive income/(loss) for the year		**239.6**	**(54.5)**
Net profit/(loss) for the year is attributable to:			
Equity holders of the parent		**239.0**	**(56.8)**
Non-controlling interests		2.4	1.6
		241.4	(55.2)
Total comprehensive income/(loss) for the year is attributable to:			
Equity holders of the parent		237.2	(56.1)
Non-controlling interests		2.4	1.6
		239.6	(54.5)
Earnings/(loss) per share attributable to the ordinary equity holders of the Company:			
Basic earnings/(loss) per share (cents)	22	23.4	(6.2)
Diluted earnings/(loss) per share (cents)	22	23.3	(6.2)

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

Statement of Financial Position

As at 30 April 2021

	Notes	FY21 $m	FY20 $m
ASSETS			
Current assets			
Cash and cash equivalents		124.6	275.1
Trade receivables and loans	6	1,622.4	1,578.2
Lease receivables	7	41.5	55.6
Inventories		1,008.0	1,032.2
Assets held for sale		11.0	11.4
Other financial assets		2.8	1.5
Total current assets		**2,810.3**	**2,954.0**
Non-current assets			
Trade receivables and loans	6	15.7	25.7
Lease receivables	7	239.0	237.1
Equity-accounted investments	8	82.5	77.6
Net deferred tax assets	4	125.8	120.0
Property, plant and equipment	9	231.8	214.0
Right-of-use assets	7	618.9	485.4
Intangible assets	10	729.1	581.8
Total non-current assets		**2,042.8**	**1,741.6**
TOTAL ASSETS		**4,853.1**	**4,695.6**
LIABILITIES			
Current liabilities			
Trade and other payables		2,094.7	2,064.1
Lease liabilities	7	146.6	173.4
Provisions	12	139.7	116.3
Income tax payable		31.9	1.7
Put options and other financial liabilities	13	21.9	7.2
Total current liabilities		**2,434.8**	**2,362.7**
Non-current liabilities			
Interest-bearing borrowings	11	-	188.4
Lease liabilities	7	888.0	712.7
Provisions	12	44.4	58.1
Put options and other financial liabilities	13	194.8	2.1
Total non-current liabilities		**1,127.2**	**961.3**
TOTAL LIABILITIES		**3,562.0**	**3,324.0**
NET ASSETS		**1,291.1**	**1,371.6**
EQUITY			
Contributed equity	14	867.0	853.5
Retained earnings		414.6	505.5
Other reserves	14	(1.7)	(2.3)
Parent interest		**1,279.9**	**1,356.7**
Non-controlling interests		11.2	14.9
TOTAL EQUITY		**1,291.1**	**1,371.6**

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 2021

	Notes	Contributed equity $m	Retained earnings $m	Other reserves $m	Owners of the parent $m	Non-controlling interests $m	Total equity $m
At 1 May 2020		**853.5**	**505.5**	**(2.3)**	**1,356.7**	**14.9**	**1,371.6**
Total comprehensive income/(loss), net of tax		-	239.0	(1.8)	237.2	2.4	239.6
Transactions with owners							
Proceeds from equity raising, net of costs	14	13.5	-	-	13.5	-	13.5
Dividends paid	5	-	(148.3)	-	(148.3)	(1.4)	(149.7)
Recognition of put option liabilities	13	-	(172.6)	-	(172.6)	(4.7)	(177.3)
Share of associate's adjustment on initial adoption of AASB 16 *Leases*		-	(9.0)	-	(9.0)	-	(9.0)
Shares issued to employees	19	-	-	(6.3)	(6.3)	-	(6.3)
Share-based payments expense		-	-	8.7	8.7	-	8.7
At 30 April 2021		**867.0**	**414.6**	**(1.7)**	**1,279.9**	**11.2**	**1,291.1**
At 1 May 2019		**559.2**	**680.5**	**(0.8)**	**1,238.9**	**9.6**	**1,248.5**
Total comprehensive (loss)/income, net of tax		-	(56.8)	0.7	(56.1)	1.6	(54.5)
Transactions with owners							
Proceeds from equity raising, net of costs	14	294.3	-	-	294.3	-	294.3
Dividends paid	5	-	(118.2)	-	(118.2)	(1.0)	(119.2)
Acquisition of a subsidiary		-	-	-	-	4.7	4.7
Shares issued to employees	19	-	-	(5.2)	(5.2)	-	(5.2)
Share-based payments expense		-	-	3.0	3.0	-	3.0
At 30 April 2020		**853.5**	**505.5**	**(2.3)**	**1,356.7**	**14.9**	**1,371.6**

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

Statement of Cashflows

For the year ended 30 April 2021

	Notes	FY21 $m	FY20 $m
Cash flows from operating activities			
Receipts from customers		17,845.6	16,149.7
Payments to suppliers and employees		(17,256.7)	(15,905.1)
Financing component of lease payments, net	7	(30.3)	(28.5)
Interest and dividends, net		(4.2)	(16.5)
Income tax paid, net of tax refunds		(78.9)	(82.1)
Net cash generated from operating activities	15	**475.5**	**117.5**
Cash flows from investing activities			
Proceeds from sale of business and assets		0.6	5.4
Payments for acquisition of assets		(85.6)	(61.5)
Payments for acquisition of businesses, net of cash acquired	23	(143.1)	(29.7)
Receipts from subleases, excluding the financing component	7	44.3	45.2
Loans repaid by other entities, net		12.1	4.2
Net cash used in investing activities		**(171.7)**	**(36.4)**
Cash flows from financing activities			
Proceeds from equity raising, net of costs	14	13.5	294.3
(Repayments of)/proceeds from borrowings, net	11	(190.9)	9.3
Payments for on-market purchase of shares		(5.2)	(3.3)
Payments for lease liabilities, excluding the financing component	7	(122.0)	(129.7)
Payment of dividends to owners of the parent		(148.3)	(118.2)
Payment of dividends to non-controlling interests		(1.4)	(1.0)
Net cash generated (used in)/from financing activities		**(454.3)**	**51.4**
Net (decrease)/increase in cash and cash equivalents		**(150.5)**	**132.5**
Add: opening cash and cash equivalents		275.1	142.6
Cash and cash equivalents at the end of the year		**124.6**	**275.1**

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

Notes to the Financial Statements

1. CORPORATE INFORMATION

The financial statements of Metcash Limited (the 'Company') and its controlled entities (together the 'Group') for the year ended 30 April 2021 were authorised for issue in accordance with a resolution of the Directors on 28 June 2021.

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

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

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

Segment results

	Segment revenue		Segment results	
	FY21 $m	FY20 $m	FY21 $m	FY20 $m
Food	8,316.3	8,121.6	192.4	182.7
Liquor	4,374.3	3,670.3	88.7	72.8
Hardware	1,624.7	1,233.5	136.0	84.2
Segment total	**14,315.3**	**13,025.4**	**417.1**	**339.7**
Corporate			(15.7)	(4.8)
Group underlying earnings before interest and tax ('EBIT')			**401.4**	**334.9**
Finance costs, net (Note 3)			(42.6)	(52.0)
Significant items (Note 3)			(17.0)	(268.5)
Profit before income tax			**341.8**	**14.4**

Notes to the Financial Statements

3. OTHER INCOME AND EXPENSES

	FY21 $m	FY20 $m
(i) Other income		
Lease income - rent	7.1	8.3
Lease income - outgoings recoveries	16.3	16.8
Net gain from disposal of business and plant and equipment	0.6	0.5
	24.0	**25.6**
(ii) Employee benefit expenses		
Salaries and wages, incentives, and on-costs	673.1	606.1
Superannuation expense	45.4	42.3
Share-based payments expense	8.7	3.0
	727.2	**651.4**
(iii) Depreciation and amortisation		
Depreciation of right-of-use assets	106.8	103.1
Depreciation of property, plant and equipment	29.5	26.4
Amortisation of software	22.8	23.0
Amortisation of other intangible assets	4.6	4.7
	163.7	**157.2**
(iv) Lease expenses		
Property rent	3.9	3.9
Property outgoings	54.7	58.6
Equipment and other leases	10.6	10.5
	69.2	**73.0**
(v) Provisions for impairment, net of reversals		
Trade receivables and loans	14.1	13.2
Inventories	31.2	22.2
Property provisions	(6.8)	(9.3)
Other impairments (net)	4.4	2.2
	42.9	**28.3**
(vi) Finance costs, net		
Interest expense	9.8	16.9
Transaction fees in relation to customer charge cards (Note 6)	2.0	5.4
Deferred borrowing costs	1.7	1.0
Finance component of lease payments, net	30.3	28.5
Finance costs from discounting of provisions	2.7	3.5
Interest income	(3.9)	(3.3)
	42.6	**52.0**
(vii) Significant items		
Total Tools acquisition costs and put option valuation (Note 23)	6.1	-
Project Horizon implementation costs	7.9	-
MFuture implementation costs	3.5	10.5
COVID-19 impairments	(0.5)	15.6
Impairment of goodwill and other assets	-	242.4
Total significant items before tax	17.0	268.5
Income tax benefit attributable to significant items	(3.3)	(12.9)
Total significant items after tax	**13.7**	**255.6**

Notes to the Financial Statements

3. OTHER INCOME AND EXPENSES (continued)

***Project Horizon* implementation costs**

Metcash has embarked on the three-year *Project Horizon* stage one program aimed at derisking the Group's processes by replacing aged technology whilst driving efficiencies and simplifying processes through the development of a single operating system across the Group. In FY21, the Group incurred $17.3 million of capital expenditure and $7.9 million of expenses on the program. The project expenses included resource costs, incremental accelerated amortisation of legacy software assets and incremental software licence and maintenance costs. These costs are separately disclosed within significant items to enable a better understanding of the Group's results.

***MFuture* implementation costs**

The five-year *MFuture* program commenced in FY20 and includes initiatives aimed at growth and maximising the effectiveness of the Group's cost of doing business ('CODB'). During the current year, the Group incurred $3.5 million (FY20: $10.5 million) of implementation costs related to the *MFuture* program. The current year costs include redundancies and costs associated with the move to the new distribution centre in South Australia (SADC), which became operational in December 2020.

COVID-19 impairments

In FY20, an impairment charge of $15.6 million was recognised primarily in relation to expected credit losses from specific groups of trade receivables impacted by the COVID-19 restrictions and the write-off of prepaid commitments for events. During the current year, $6.2 million of the previously recognised allowance for impairment loss was utilised and an $0.5 million impairment reversal was recognised. The Group continues to be subject to volatility and uncertainty in its trading environment and operations due to potential changes to COVID-19 related restrictions and resulting changes in consumer behaviour. Accordingly, the Group has retained provisions for credit and inventory related COVID-19 impairments of $10.7 million at balance sheet date.

4. INCOME TAX

	FY21 $m	FY20 $m
Major components of income tax expense		
Current income tax charge	102.4	70.7
Adjustments in respect of income tax of previous years	0.3	(1.3)
Deferred income tax relating to origination and reversal of temporary differences	(2.3)	0.2
Total income tax expense	**100.4**	**69.6**
Reconciliation of income tax expense		
Profit before income tax	341.8	14.4
At the Group's statutory income tax rate of 30% (FY20: 30%)	102.5	4.3
Impairment of goodwill not allowable for tax purposes	-	67.7
Other assessable/(non-assessable) amounts – net	(2.4)	(1.1)
Adjustments in respect of income tax of previous years	0.3	(1.3)
Income tax expense	**100.4**	**69.6**
Components of net deferred tax assets		
Provisions	131.1	121.9
Unutilised tax losses	-	0.1
Accelerated depreciation for accounting purposes	16.5	10.9
Other	12.3	12.5
Intangible assets	(34.1)	(25.4)
	125.8	**120.0**
Movements in net deferred tax assets		
Opening balance	120.0	117.3
Credited/(charged) to net profit for the year	2.3	(0.2)
Charged to other comprehensive income for the year	-	(0.1)
Tax benefit associated with share issue costs – net	(0.2)	2.4
Adjustments related to business combinations	3.7	0.6
Closing balance	**125.8**	**120.0**

The Group has unrecognised gross capital losses of $19.5 million (FY20: $20.8 million) that are available indefinitely for offset against future capital gains.

Notes to the Financial Statements

4. INCOME TAX (continued)

Tax consolidation

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

Tax effect accounting by members of the tax consolidated group

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

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

5. DIVIDENDS

	FY21 $m	FY20 $m
Dividends paid on ordinary shares during the year		
Final fully franked dividend for FY20: 6.5c (FY19: 7.0c)	66.5	63.6
Interim fully franked dividend for FY21: 8.0c (FY20: 6.0c)	81.8	54.6
	148.3	**118.2**
Dividends determined (not recognised as a liability as at 30 April)		
Final fully franked dividend for FY21: 9.5c (FY20: 6.5c)	97.1	66.1

On 28 June 2021, the Board determined to pay a fully franked FY21 final dividend of 9.5 cents per share, sourced from the profit reserve established by Metcash Limited (Parent Company), with a record date of 2 July 2021 and payable in cash on 11 August 2021. The Dividend Reinvestment Plan remains suspended with effect from 26 June 2017.

Franking credit balance of Metcash Limited

	FY21 $m	FY20 $m
Franking account balance as at the end of the financial year at 30% (FY20: 30%)	216.8	203.8
Franking credits that will arise from the payment of income tax payable at the reporting date	16.5	3.9
Franking credits on dividends determined but not distributed to shareholders during the year	(41.6)	(28.5)
	191.7	**179.2**

Notes to the Financial Statements

6. TRADE RECEIVABLES AND LOANS

	FY21 $m	FY20 $m
Current		
Trade receivables	1,294.7	1,242.7
Allowance for impairment loss	(55.4)	(58.9)
Trade receivables	1,239.3	1,183.8
Customer charge cards agreement (a)	211.9	226.5
Other receivables and prepayments	156.6	148.7
Trade and other receivables	**1,607.8**	**1,559.0**
Customer loans	15.8	23.8
Allowance for impairment loss	(1.2)	(4.6)
Customer loans	**14.6**	**19.2**
Total trade receivables and loans – current	**1,622.4**	**1,578.2**
Non-current		
Customer loans	16.4	25.7
Allowance for impairment loss	(0.7)	-
Total trade receivables and loans – non-current	**15.7**	**25.7**

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

Movements in allowance for impairment loss

	FY21 $m	FY20 $m
Opening balance	63.5	69.0
Charged as an expense during the year	8.0	24.7
Accounts written off as non-recoverable	(14.2)	(31.4)
Related to acquisitions and disposals of businesses and other movements	-	1.2
Closing balance	**57.3**	**63.5**

Weighted average interest

Trade and other receivables are non-interest-bearing and repayment terms vary by pillar. As at 30 April 2021, $4.7 million (FY20: $2.8 million) of customer loans are non-interest-bearing and $27.5 million (FY20: $46.7 million) of customer loans have a weighted average annual interest rate of 5.9% (FY20: 7.4%).

Maturity of trade receivables

At 30 April 2021, 89.2% (FY20: 92.4%) of trade receivables are either due or required to be settled within 30 days, 9.5% (FY20: 7.0%) have terms extending from 30 to 60 days and 1.3%(FY20: 0.6%) have terms greater than 60 days.

Customer charge cards agreement

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

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

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

The customer charge cards agreement is presented as part of current trade and other receivables and a matching current liability of $211.9 million (FY20: $226.5 million) is included within trade and other payables, with no impact to the Group's net asset position.

Notes to the Financial Statements

6. TRADE RECEIVABLES AND LOANS (continued)

Customer loan security

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

Ageing of unimpaired trade receivables and loans

Days overdue	Trade receivables (a) $m	Trade receivables (a) %	Customer loans $m	Customer loans %	Other receivables and prepayments $m	Other receivables and prepayments %
At 30 April 2021						
Neither past due nor impaired	1,389.5	95.7%	23.4	77.2%	156.6	100.0%
Less than 30 days	58.0	4.0%	0.2	0.7%	-	-
Between 30 and 60 days	3.7	0.3%	0.4	1.3%	-	-
Between 60 and 90 days	-	-	0.3	1.0%	-	-
Between 90 and 120 days	-	-	0.5	1.7%	-	-
More than 120 days	-	-	5.5	18.1%	-	-
Total	1,451.2	100.0%	30.3	100.0%	156.6	100.0%
At 30 April 2020						
Neither past due nor impaired	1,262.3	89.5%	33.0	73.5%	148.7	100.0%
Less than 30 days	113.1	8.0%	0.4	0.9%	-	-
Between 30 and 60 days	16.4	1.2%	0.2	0.4%	-	-
Between 60 and 90 days	4.2	0.3%	0.3	0.7%	-	-
Between 90 and 120 days	7.9	0.6%	0.6	1.3%	-	-
More than 120 days	6.4	0.4%	10.4	23.2%	-	-
Total	1,410.3	100.0%	44.9	100.0%	148.7	100.0%

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

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

Notes to the Financial Statements

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

	Right-of-use assets (a)				
	Leasehold properties $m	Motor vehicles and equipment $m	Total $m	Lease receivables (b)(c) $m	Lease liabilities $m
As at 1 May 2020	**452.4**	**33.0**	**485.4**	**292.7**	**(886.1)**
New and modified leases	165.5	34.4	199.9	11.4	(211.0)
Additions through business combinations	36.5	-	36.5	2.9	(39.5)
Leases exited	-	-	-	(1.3)	1.1
Lease remeasurements	3.8	-	3.8	16.9	(21.1)
Impairments, net	(0.4)	-	(0.4)	2.7	-
Depreciation	(92.6)	(14.2)	(106.8)	-	-
Reclassifications	0.5	-	0.5	(0.5)	-
Cash (receipts)/payments	-	-	-	(57.6)	165.6
Financing component of lease receipts/(payments)	-	-	-	13.3	(43.6)
As at 30 April 2021	**565.7**	**53.2**	**618.9**	**280.5**	**(1,034.6)**
Current	-	-	-	41.5	(146.6)
Non-current	565.7	53.2	618.9	239.0	(888.0)
As at 1 May 2019	**520.3**	**34.2**	**554.5**	**316.0**	**(946.5)**
New and modified leases	49.1	12.9	62.0	15.2	(77.2)
Leases exited	(12.0)	-	(12.0)	(6.1)	10.0
Lease remeasurements	2.9	-	2.9	(4.0)	(2.1)
Impairments, net	(1.2)	-	(1.2)	(0.9)	-
Depreciation	(89.0)	(14.1)	(103.1)	-	-
Reclassifications	(17.7)	-	(17.7)	17.7	-
Cash (receipts)/payments	-	-	-	(59.8)	172.8
Financing component of lease receipts/(payments)	-	-	-	14.6	(43.1)
As at 30 April 2020	**452.4**	**33.0**	**485.4**	**292.7**	**(886.1)**
Current	-	-	-	55.6	(173.4)
Non-current	452.4	33.0	485.4	237.1	(712.7)

(a) The cost and accumulated depreciation and impairment of the right-of-use assets are presented below:

	Right-of-use assets		
	Leasehold properties $m	Motor vehicles and equipment $m	Total $m
Cost	765.2	89.9	855.1
Accumulated depreciation and impairment	(199.5)	(36.7)	(236.2)
As at 30 April 2021	**565.7**	**53.2**	**618.9**
Cost	561.3	55.5	616.8
Accumulated depreciation and impairment	(108.9)	(22.5)	(131.4)
As at 30 April 2020	**452.4**	**33.0**	**485.4**

(b) As at 30 April 2021, lease receivables include a gross carrying amount of $299.3 million (FY20: $314.7 million) and allowance for impairment losses of $18.8 million (FY20: $22.0 million).

Notes to the Financial Statements

7. RIGHT-OF-USE ASSETS, LEASE RECEIVABLES AND LEASE LIABILITIES (continued)

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

	FY21 $m	FY20 $m
Within one year	55.1	57.4
After one year but not more than five years	171.7	178.9
More than five years	139.6	150.9
	366.4	387.2
Unearned finance income	(67.1)	(72.5)
Impairment of receivables	(18.8)	(22.0)
	280.5	**292.7**

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

	FY21 $m	FY20 $m
Within one year	2.1	3.1
After one year but not more than five years	5.8	7.5
More than five years	6.8	8.5
	14.7	**19.1**

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

	FY21 $m	FY20 $m
Receipts from subleases, excluding the financing component	44.3	45.2
Payment for lease liabilities, excluding the financing component	(122.0)	(129.7)
Financing component of lease payments, net	(30.3)	(28.5)
Net cash payments	**(108.0)**	**(113.0)**

(f) In FY21, the Group recognised rent expense of $14.5 million (FY20: $14.4 million) from short-term leases and variable lease payments.

(g) Extension options are included in a number of lease contracts across the Group. These options are negotiated by management to provide flexibility in managing the leased-asset portfolio and align with the Group's business needs. The extension options are exercisable only by the Group and not by the lessors. The present value of lease payments to be made under these options that are considered reasonably certain to be exercised have been included in the lease liability balance at 30 April 2021. The undiscounted potential future payments at current rental rates under options that are not considered reasonably certain to be exercised is approximately $1.9 billion, which includes potential lease payments within the next five years of approximately $205.8 million.

Notes to the Financial Statements

8. EQUITY-ACCOUNTED INVESTMENTS

Nature and extent

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

Contingent liabilities and commitments

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

Share of investees' profit

In aggregate, the Group's share of profit after tax from equity-accounted investments during the year was $20.1 million (FY20: $5.3 million) which is net of a $8.6 million (FY20: $1.5 million) share of income tax expense incurred by the investees.

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

Share of investees' net assets

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

	FY21 $m	FY20 $m
Current assets	96.7	71.1
Non-current assets	232.2	151.8
Total assets	328.9	222.9
Current liabilities	133.7	105.3
Non-current liabilities	136.7	63.4
Total liabilities	270.4	168.7
Net assets	**58.5**	**54.2**

Notes to the Financial Statements

9. PROPERTY, PLANT AND EQUIPMENT

	Land & buildings $m	Plant & equipment $m	Total $m
Year ended 30 April 2021			
Opening balance	37.7	176.3	214.0
Additions	0.5	58.7	59.2
Additions through business combinations	-	9.0	9.0
Disposals	-	(4.7)	(4.7)
Reclassifications	(1.1)	(15.1)	(16.2)
Depreciation	(0.3)	(29.2)	(29.5)
Closing balance	**36.8**	**195.0**	**231.8**
At 30 April 2021			
Cost	44.2	431.1	475.3
Accumulated depreciation and impairment	(7.4)	(236.1)	(243.5)
Net carrying amount	**36.8**	**195.0**	**231.8**
Year ended 30 April 2020			
Opening balance	37.6	180.4	218.0
Additions	0.5	56.0	56.5
Additions through business combinations	-	6.5	6.5
Disposals	-	(2.4)	(2.4)
Impairment	-	(15.7)	(15.7)
Reclassifications	-	(22.5)	(22.5)
Depreciation	(0.4)	(26.0)	(26.4)
Closing balance	**37.7**	**176.3**	**214.0**
At 30 April 2020			
Cost	44.8	378.5	423.3
Accumulated depreciation and impairment	(7.1)	(202.2)	(209.3)
Net carrying amount	**37.7**	**176.3**	**214.0**

Additions to plant and equipment include $30.6 million (FY20: $41.7 million) of assets under construction. The closing balance of plant and equipment includes $28.3 million (FY20: $33.0 million) of assets under construction.

Notes to the Financial Statements

10. INTANGIBLE ASSETS

	Software development costs $m	Customer contracts $m	Trade names and other $m	Goodwill $m	Total $m
Year ended 30 April 2021					
Opening balance	55.5	44.3	40.3	441.7	581.8
Additions	24.6	-	2.0	-	26.6
Additions through business combinations	-	-	31.7	103.9	135.6
Adjustments to business combinations	-	-	-	1.7	1.7
Impairment	(2.0)	-	-	-	(2.0)
Disposals	(0.7)	-	-	-	(0.7)
Reclassifications	16.2	-	-	-	16.2
Amortisation	(25.5)	(4.4)	(0.2)	-	(30.1)
Closing balance	**68.1**	**39.9**	**73.8**	**547.3**	**729.1**
At 30 April 2021					
Cost	231.7	176.1	77.2	1,529.7	2,014.7
Accumulated amortisation and impairment	(163.6)	(136.2)	(3.4)	(982.4)	(1,285.6)
Net carrying amount	**68.1**	**39.9**	**73.8**	**547.3**	**729.1**
Year ended 30 April 2020					
Opening balance	55.0	49.0	40.3	649.2	793.5
Additions	5.0	-	-	-	5.0
Additions through business combinations	-	-	-	20.7	20.7
Adjustments to business combinations	-	-	-	1.2	1.2
Impairment	(1.6)	-	-	(225.6)	(227.2)
Disposals	(2.4)	-	-	(3.8)	(6.2)
Reclassifications	22.5	-	-	-	22.5
Amortisation	(23.0)	(4.7)	-	-	(27.7)
Closing balance	**55.5**	**44.3**	**40.3**	**441.7**	**581.8**
At 30 April 2020					
Cost	191.6	176.1	43.4	1,424.1	1,835.2
Accumulated amortisation and impairment	(136.1)	(131.8)	(3.1)	(982.4)	(1,253.4)
Net carrying amount	**55.5**	**44.3**	**40.3**	**441.7**	**581.8**

Impairment tests for goodwill and intangibles with indefinite useful lives

Description of cash generating units

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

Allocation to CGUs

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

	Allocated goodwill		Trade names and other intangibles		Post-tax discount rates	
Cash-generating units	FY21 $m	FY20 $m	FY21 $m	FY20 $m	FY21 %	FY20 %
Food	214.3	214.3	2.1	0.2	10.6%	11.3%
Liquor	148.3	120.3	13.1	12.9	9.4%	10.1%
Hardware	184.7	107.1	58.6	27.2	9.4%	10.1%
	547.3	441.7	73.8	40.3		

Notes to the Financial Statements

10. INTANGIBLE ASSETS (continued)

Assessment of recoverable amounts

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

Key assumptions used in assessment

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

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

  Cash flow projections are based on risk-adjusted forecasts allowing for estimated changes in the business, the competitive trading environment, legislation and economic growth whilst noting that uncertainties remain due to COVID-19 restrictions and any potential changes to consumer behaviour. Other uncertainties surrounding macroeconomic indicators such as unemployment and GDP growth and the timing and impact on the economy of the withdrawal of government support packages create future uncertainty over the Group's operating cash flows.

- 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 15.1% (FY20: 16.1%) for Food, 13.4% (FY20: 14.3%) for Liquor and 13.4% (FY20: 14.1%) for Hardware.

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

Results of assessment

Based on the FY21 assessment, no impairment of goodwill was identified in any of the Group's CGUs.

Sensitivity to changes in key assumptions

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

Notes to the Financial Statements

11. INTEREST-BEARING BORROWINGS

	FY21 $m	FY20 $m
Bank loans – syndicated	-	190.0
Bilateral loan	-	0.9
Deferred borrowing costs	-	(2.5)
	-	**188.4**

Financial covenants

See note 16 for details of the Group's core borrowing facilities. The core borrowings of the Group must comply with two primary covenants which apply to the syndicated bank facilities and the working capital facilities. In FY21, the definition of these covenants in the facility agreements were revised to be on a post-AASB16 basis (FY20: pre-AASB16 basis). They include a Fixed Charges Cover Ratio and a Senior Leverage Ratio. There were no defaults or breaches on the Group's core borrowings in FY21 and FY20.

Fair value

The carrying amounts of the Group's borrowings approximate their fair value. The Group had nil borrowings as at the end of the financial year. The weighted average effective interest rate on the syndicated and working capital loans, including interest rate swaps, was 1.9% (FY20: 2.8%) over the financial year. These rates exclude line fees on unutilised facility balances.

12. PROVISIONS

	Employee entitlements $m	Property provisions $m	Total $m
30 April 2021			
Current	128.2	11.5	139.7
Non-current	11.2	33.2	44.4
	139.4	**44.7**	**184.1**
30 April 2020			
Current	104.8	11.5	116.3
Non-current	11.5	46.6	58.1
	116.3	**58.1**	**174.4**

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

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

Movements in property provisions

	FY21 $m	FY20 $m
Opening balance	58.1	85.0
Reversals during the year, net	(6.8)	(10.1)
Utilised during the year	(9.3)	(20.0)
Resulting from acquisitions of businesses	-	(0.2)
Finance cost discount rate adjustment	2.7	3.4
Closing balance	**44.7**	**58.1**

Notes to the Financial Statements

13. PUT OPTIONS AND OTHER FINANCIAL LIABILITIES

	Put option liabilities $m	Other financial liabilities $m	Total $m
30 April 2021			
Current	17.7	4.2	21.9
Non-current	194.8	-	194.8
	212.5	**4.2**	**216.7**
30 April 2020			
Current	6.1	1.1	7.2
Non-current	-	2.1	2.1
	6.1	**3.2**	**9.3**

Put option liabilities

Total Tools Group put options

In September 2020, Metcash acquired a 70% equity interest in Total Tools Holdings Pty Ltd (Total Tools), which is the parent entity in the Total Tools Group comprising the franchisor operations, company-owned stores and subsequently, an ownership interest in 12 Total Tools independent retail stores ('the JV Stores").

The Total Tools put option agreement allows minority shareholders to sell their 30% equity interest in Total Tools Holdings Pty Ltd to Metcash, exercisable between 1 November 2023 and 31 January 2024. Metcash has the right to acquire the remaining 30% equity interest via a call option, exercisable at any time from 1 November 2023. The exercise price of the call and put option is based on a multiple of the Total Tools Group EBITDA over the 12-month period ending on 29 October 2023, adjusted for a number of items, including net debt and working capital.

The Group has recognised an initial liability of $122.2 million in respect of the put option held by minority shareholders in Total Tools Holdings Pty Ltd (refer note 23).

In December 2020, Total Tools acquired ownership interests between 51% and 60% in 12 Total Tools independent retail stores. Accordingly, Metcash holds an effective ownership interest of between 35.7% and 42% in these 'JV Stores'.

The Total Tools JV Store put option agreements allow individual minority shareholders to sell their remaining equity interests in the JV Stores to Total Tools, subject to the satisfaction of certain criteria, exercisable between 1 May 2024 and 31 July 2024. Metcash has the right to acquire the remaining equity interests via call options, exercisable at any time. The exercise price of the call and put options are based on a multiple of the respective stores' EBITDA over the 12-month period ending on 30 April 2024, adjusted for a number of items, including net debt and working capital.

The Group has recognised an initial liability of $69.4 million in respect of the put options held by minority shareholders in the Total Tools JV Stores (refer note 23).

The above put option liabilities were initially measured at the fair value of the put option exercise prices estimated to be payable under each option. The liabilities are subsequently remeasured at each reporting date at the estimated put option exercise price, with any change in value recorded as a significant item within the Statement of Comprehensive Income, together with the net present value interest unwind on the put option liability.

As a result of recognising the put options as a financial liability, Metcash has derecognised the minority shareholders' non-controlling interest in Total Tools Holdings Pty Ltd and the JV Stores and has ceased accounting for the non-controlling interests. Accordingly, the Statement of Comprehensive Income includes 100% of the net profit of Total Tools and includes 100% of the net profits of the JV Stores. Further details are set out in note 23 of the financial report.

Other put options

The Group has also recognised a liability of $17.7 million (FY20: $6.1 million) in respect of an additional three put options written over non-controlling interests in non-wholly owned subsidiaries within the Hardware pillar. These put option arrangements allow minority shareholders to sell their equity interests to Metcash, subject to specific terms and conditions. These put options are measured at the present value of the redemption amount under the option.

Notes to the Financial Statements

14. CONTRIBUTED EQUITY AND RESERVES

Contributed equity

	Number of shares	FY21 $m	Number of shares	FY20 $m
At 1 May	1,016,399,606	853.5	909,256,748	559.2
Issued under equity raising, net of share issue costs	5,963,215	13.5	107,142,858	294.3
At 30 April	**1,022,362,821**	**867.0**	**1,016,399,606**	**853.5**

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

In May 2020, Metcash issued 5,963,215 shares under its Share Purchase Plan ('SPP') at $2.28 per share which raised $13.5 million of equity, net of transaction costs.

In April 2020, the Company issued 107,142,858 shares via an Institutional Placement at $2.80 per share which raised $294.3 million of equity, net of $5.7 million transaction costs.

Other reserves

	Share-based payments reserve $m	Foreign currency translation reserve $m	Cash flow hedge reserve $m	Total other reserves $m
At 1 May 2019	4.8	(4.8)	(0.8)	(0.8)
Total comprehensive income, net of tax	-	(0.2)	0.9	0.7
Shares issued to employees	(5.2)	-	-	(5.2)
Share-based payments expense	3.0	-	-	3.0
At 30 April 2020	**2.6**	**(5.0)**	**0.1**	**(2.3)**
Movement in fair value of derivatives	-	-	(1.5)	(1.5)
Movement in foreign currency valuations	-	(0.3)	-	(0.3)
Total comprehensive income, net of tax	-	(0.3)	(1.5)	(1.8)
Shares issued to employees	(6.3)	-	-	(6.3)
Share-based payments expense	8.7	-	-	8.7
At 30 April 2021	**5.0**	**(5.3)**	**(1.4)**	**(1.7)**

Notes to the Financial Statements

15. RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES

	FY21 $m	FY20 $m
Net profit/(loss) for the year	241.4	(55.2)
Adjustments for:		
Depreciation and amortisation	163.7	157.2
Provisions for impairment, net of reversals	42.9	286.3
Net gain from disposal of property, plant and equipment	(0.6)	(0.5)
Share-based payments expense	8.7	3.0
Other adjustments	10.8	7.6
Changes in assets and liabilities:		
Increase in trade and other receivables	(30.7)	(117.9)
Decrease/(increase) in inventories	37.6	(255.8)
Increase/(decrease) in tax balances	21.5	(12.5)
(Decrease)/increase in payables and provisions	(19.8)	105.3
Cash flows from operating activities	**475.5**	**117.5**

16. FINANCIAL RISK MANAGEMENT

Objectives and policies

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

The main risks arising from the Group's financial instruments are liquidity risk, 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 extreme circumstances. To limit this risk, the Group manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. The Group's primary source of debt funding is a syndicated facility and working capital loans, of which 1.2% (FY20: 20.0%) has been utilised at 30 April 2021. The Group monitors forecasts of liquidity reserves on the basis of expected cash flow.

Available credit facilities

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

	Total facility $m	Debt usage $m	Guarantees & other usage $m	Facility available $m
At 30 April 2021				
Syndicated facility	675.0	-	-	675.0
Working capital, including guarantees	230.0	-	(10.7)	219.3
	905.0	**-**	**(10.7)**	**894.3**

Notes to the Financial Statements

16. FINANCIAL RISK MANAGEMENT (continued)

- **Syndicated facilities**

  Syndicated bank loans are senior unsecured revolving facilities. The facilities are due to expire in May 2022 ($150.0 million), May 2023 ($200.0 million), May 2024 ($100.0 million), September 2024 ($125.0 million) and September 2025 ($100.0 million). Interest is payable on the facilities based on BBSY plus a margin. The applicable margin is dependent upon an escalation matrix linked to the senior leverage ratio achieved. These bank loans are subject to certain financial undertakings as detailed in note 11.

- **Working capital**

  Working capital bank loans are represented by two unsecured revolving facilities totalling $230.0 million. These facilities mature in July 2021 ($100.0 million), September 2021 ($30.0 million) and February 2022 ($100.0 million). Interest payable on any loans drawn under these facilities is based on BBSY or the RBA cash rate plus a margin. These bank loans are subject to certain financial undertakings as detailed in note 11.

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.

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

	1 year or less $m	1 - 5 years $m	More than 5 years $m	Total $m
As at 30 April 2021				
Trade and other payables	2,094.7	-	-	2,094.7
Financial guarantee contracts	0.4	-	-	0.4
Other financial liabilities	3.8	-	-	3.8
Put options written over non-controlling interests	17.4	191.6	-	209.0
Lease liabilities	189.9	526.1	570.0	1,286.0
Derivative liabilities – gross settled:				
- Inflows	30.4	-	-	30.4
- Outflows	(30.4)	-	-	(30.4)
Net maturity	**2,306.2**	**717.7**	**570.0**	**3,593.9**

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

Notes to the Financial Statements

16. FINANCIAL RISK MANAGEMENT (continued)

Put options

The following put options are not included in the above maturity analysis table. These put options are recognised at their fair value of nil.

Ritchies Stores Pty Ltd (Ritchies)

The Group has a put option with Ritchies Stores Pty Ltd (Ritchies). Metcash has a 26.4% (FY20: 26.0%) ownership interest in Ritchies, which is recognised as an equity-accounted investment on the Group's balance sheet. The remaining shareholders in Ritchies have the right to put their 73.6% (FY20: 74.0%) ownership interests to Metcash, via put option, subject to a margin related annual financial hurdle ('hurdle') being achieved.

The put option can be exercised collectively by all shareholders during a prescribed period following the approval of Ritchies' annual audited financial report ('group put option' representing the remaining 73.6% shareholding) or in certain circumstances by individual minority shareholders within a prescribed period ('small shareholder put option').

Should the hurdle be achieved and the shareholders elect to exercise any put option, the purchase consideration payable by Metcash is based on a multiple of the prior year reported earnings, normalised for certain adjustments.

Whilst the financial hurdle was achieved in respect of Ritchies' 2020 financial year, the group put option was not exercised in relation to that year. Metcash estimates that the group put option consideration payable to Ritchies shareholders in respect of the 2020 financial year would have been between $240.0 million and $260.0 million.

Two small shareholders holding an aggregate of 2,000 shares (or 0.4% stake in Ritchies) exercised their option under the 'small shareholder put option' in relation to Ritchies 2020 financial year, bringing Metcash's share in Ritchies to 26.4%.

If any put options were to be exercised in future years, the exercise price will be determined with reference to Ritchies' results for that financial year and the consideration payable would reflect those results.

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

Other put options

The Group entered into put and call option agreements with two Total Tools independent retail stores without acquiring any present ownership interest ('Non-owned stores'). These options are exercisable in 2024 if certain operating performance conditions are met and with an exercise price determined using a multiple of EBITDA.

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.

The Group's treasury policy requires core debt to be hedged between a range over certain maturity periods. Core debt is defined as the minimum level of drawn debt which is expected to occur over the year. At 30 April 2021, Metcash has nil bank debt obligations and has not entered into interest rate swap contracts (FY20: $130.0 million).

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:

	FY21 $m	FY20 $m
Financial assets		
Cash and cash equivalents	124.6	275.1
Financial liabilities		
Bank loans – syndicated	-	(190.0)
Bilateral loan	-	(0.9)
Less: Interest rate swaps notional principal value - designated as cash flow hedges	-	130.0
Gross exposure	-	(60.9)

Sensitivity analysis

As the Group's treasury policy requires core debt to be appropriately hedged, there are no reasonably likely changes in interest rates that are expected to have a material impact on the Group's net profit after tax and other comprehensive income.

Notes to the Financial Statements

16. FINANCIAL RISK MANAGEMENT (continued)

Credit risk

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

Trade receivables and loans

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

Receivables and loans are monitored on an ongoing basis and a formal review of all balances occurs every six months to measure impairment losses. As identified in note 6, the current level of impairment provision represents 3.4% (FY20: 3.8%) of the Group's receivables and loans.

Lease receivables

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

Others

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

Foreign currency risk

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

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

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

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 continue to invest in the business for future growth while maintaining a strong financial position and otherwise to assess returning surplus capital to shareholders.

On 28 June 2021, the Board determined to pay a fully franked FY21 final dividend of 9.5 cents per share. In March 2021, the Board announced increasing the target dividend payout ratio from 60% to 70% of UPAT, effective FY21 and consistent with this, the FY21 final dividend represents a full year dividend payout ratio of ~71% of underlying profit after tax.

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

Management monitor capital through the gearing ratio (net debt / net debt plus total equity). The gearing ratios at 30 April 2021 and 30 April 2020 were negative (10.7%) and negative (6.7%) (negative representing a net cash position), respectively.

No changes were made to the overall objectives, policies or processes for managing capital during the year other than the increase in the target dividend payout ratio to 70%.

Notes to the Financial Statements

18. RELATED PARTY DISCLOSURES

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

Material transactions and balances with related parties – Group

	FY21 $	FY20 $
Transactions with related parties – equity-accounted investments		
Sales revenue	1,318,698,814	1,181,650,288
Lease and other charges	1,217,712	2,218,367
Dividends received	6,048,119	2,463,596
Interest income from lease receivables	2,479,047	2,532,012
Balances with related parties – equity-accounted investments		
Trade receivables – gross	121,262,314	132,934,718
Provision for impairment loss	(148,148)	(473,661)
	121,114,166	132,461,057
Lease receivables – gross	52,661,428	55,709,535
Provision for impairment loss	-	-
	52,661,428	55,709,535

Parent entity

Details of the parent entity are set out in note 20.

Compensation of key management personnel of the Group

	FY21 $	FY20 $
Short-term	11,976,242	9,299,815
Long-term	315,344	303,567
Post-employment	172,528	176,336
Share-based payments	2,999,209	840,664
	15,463,323	10,620,382

Other transactions with key management personnel

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

Metcash has business relationships with the above entities, including supply and purchase of trading goods and services, property leases and property management. All transactions with the above entities are conducted on an arm's length basis in the ordinary course of business.

Notes to the Financial Statements

19. SHARE-BASED PAYMENTS

Description of share-based payment arrangements

In FY21, the Group had the following share-based incentive schemes for employees:

Scheme name	Description
Short-term incentives (STI schemes)	
FY21 at-risk STI plan – deferred component	The FY21 at-risk STI plan includes a 33% (Group CEO) and 25% (other KMP and senior executives) deferred component which will be released through the issue of performance rights conditional upon the executives remaining employed by the Company until 15 April 2022.
FY20 at-risk STI plan – deferred component	The FY20 at-risk STI plan included a 50% (Group CEO) and 40% (other KMP and senior executives) deferred component which was released through the issue of performance rights to executives who remained employed by the Company until 15 April 2021.
Long-term incentives (LTI schemes)	
FY21-FY23 LTI grant	This grant was issued to KMP and senior executives during FY21 and is subject to two performance conditions: Return on Funds Employed ('ROFE') and Total Shareholder Returns ('TSR') over a three-year period from 1 May 2020 to 30 April 2023.
FY20-FY22 LTI grant	This grant was issued to KMP and senior executives during FY20 and is subject to two performance conditions: Return on Funds Employed ('ROFE') and Total Shareholder Returns ('TSR') over a three-year period from 1 May 2019 to 30 April 2022.
FY19-FY21 LTI grant	This grant was issued to KMP and senior executives during FY19 and is subject to two performance conditions: Relative Total Shareholder Return ('RTSR') and Underlying Earnings per Share Compound Annual Growth Rate ('UEPS CAGR') over a three-year period from 1 May 2018 to 30 April 2021.

The STI (deferred component) and LTI schemes are also subject to service conditions, usually from grant date to the date of the allocation of shares.

The FY19-FY21 LTI is expected to partially vest at 90%. These vested performance rights will be converted to shares and allocated to the participants under the rights plan on 15 August 2021.

As foreshadowed in FY20, the FY18-FY20 LTI plan partially vested on 15 August 2020 at 67.4% which was equivalent to 1,478,780 performance rights. Each performance right entitled the participant to one Metcash share. Metcash acquired 1,022,632 shares on market and allocated these to the participants on 15 August 2020. The balance relating to good leavers was settled in cash.

Measurement of fair values

FY21 at-risk STI plan – deferred component

The 33% (Group CEO) and 25% (other KMP and senior executives) components of the FY21 at-risk STI plan will be deferred and released through the issue of Metcash performance rights conditional upon the executive remaining employed by the Company until 15 April 2022. The number of performance rights will be calculated by dividing 33% (Group CEO) and 25% (other KMP and senior executives) of the STI award dollar value by the volume-weighted average price (VWAP) of Metcash ordinary shares over the 20 trading days ended 30 April 2021 of $3.74 per share. The FY21 expense for the FY21 at-risk STI plan - deferred component has been based on an estimate of the fair value of the performance rights. The fair value per grant will be determined in accordance with AASB 2 *Share-based payments* at grant date.

FY20 at-risk STI plan – deferred component

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

Notes to the Financial Statements

19. SHARE-BASED PAYMENTS (continued)

Performance rights

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

	At-risk STI deferred FY20	LTI FY21 – FY23 (ROFE)	LTI FY20 – FY22 (ROFE)	LTI FY19 – FY21 (UEPS)
Dividend yield	4.2%	4.2%	4.8%	5.2%
Risk free rate	0.1%	0.1%	1.0%	2.0%
Expected volatility	37.0%	37.0%	31.0%	37.0%
Days to vesting	296	977	1,121	1,121
Share price at grant date	$2.87	$3.46	$2.81	$2.56
Fair value at grant date	$2.57	$3.10	$2.66	$2.23

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

	LTI FY21 – FY23 (TSR)	LTI FY20 – FY22 (TSR)	LTI FY19 – FY21 (RTSR)
Dividend yield	4.2%	4.8%	5.2%
Risk free rate	0.1%	1.0%	2.0%
Expected volatility	37.0%	31.0%	37.0%
Days to vesting	977	1,121	1,121
Share price at grant date	$3.46	$2.81	$2.56
Fair value at grant date	$2.13	$1.23	$0.72

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

Reconciliation of outstanding performance rights

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

	FY21 Number	FY20 Number
Outstanding at the beginning of the year	6,370,539	6,532,863
Granted during the year	3,022,580	2,656,799
Vested/exercised during the year	(2,098,672)	(1,779,903)
Expired/forfeited during the year	(798,284)	(1,039,220)
Outstanding at the end of the year	**6,496,163**	**6,370,539**

The outstanding balance of performance rights as at 30 April 2021 is represented by:

Scheme name	Vesting date	Total outstanding (number)	Exercisable (number)	Remaining contractual life
LTI FY21 – FY23	15 August 2023	2,363,928	-	2 years 4 months
LTI FY20 – FY22	15 August 2022	2,219,333	-	1 year 4 months
LTI FY19 – FY21[1]	15 August 2021	1,874,142	-	4 months
Others	15 August 2021	38,760	-	4 months
Total outstanding at the reporting date		**6,496,163**		

1. The FY19-FY21 LTI performance rights plan is expected to partially vest on 15 August 2021 at 90% subject only to the employees remaining in employment until 15 August 2021. These vested performance rights will be converted to shares and allocated to the participants under the Rights plan on 15 August 2021.

Notes to the Financial Statements

19. SHARE-BASED PAYMENTS (continued)

Key terms and conditions

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

The key terms of the 'LTI' and 'STI plan – deferred component' plans include:

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

20. INFORMATION RELATING TO METCASH LIMITED (THE PARENT COMPANY)

	FY21 $m	FY20 $m
Statement of financial position		
Current assets – amounts receivable from subsidiaries	1,300.5	1,432.8
Net assets	**1,300.5**	**1,432.8**
Contributed equity (note 14)	867.0	853.5
Accumulated losses	(1,265.4)	(1,265.4)
Profit reserve	1,693.9	1,842.2
Share-based payments reserve	5.0	2.5
Total equity	**1,300.5**	**1,432.8**
Statement of comprehensive income		
Net profit for the year	-	-
Total comprehensive income for the year, net of tax	-	-

Profit reserve

The Parent Company established a profit reserve in FY17 within its separate financial statements, in accordance with the Company's constitution. During the current financial year, the FY20 final dividend of $66.5 million and the FY21 interim dividend of $81.8 million were sourced and paid from the profit reserve.

Closed Group

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

Contingent liabilities

The contingent liabilities in relation to the Parent Company are disclosed in note 24.

Notes to the Financial Statements

21. AUDITORS REMUNERATION

	FY21 $	FY20 $
Amounts received or due and receivable by the auditor of the Parent Company and any other entity in the Group for:		
- Auditing the statutory financial report of the Parent Company covering the Group and the statutory financial report of any controlled entities	1,825,000	2,100,000
- Fees for other assurance and agreed-upon procedure services	58,000	36,000
- Fees for tax compliance and other	399,000	177,000
	2,282,000	**2,313,000**

22. EARNINGS PER SHARE

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

	FY21 $m	FY20 $m
Earnings used in calculating basic and diluted EPS		
Net profit/(loss) attributable to ordinary equity holders of Metcash Limited	**239.0**	**(56.8)**

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

	FY21 Number	FY20 Number
Weighted average number of ordinary shares used in calculating basic EPS	1,021,936,877	910,139,794
Effect of dilutive securities	3,228,702	-
Weighted average number of ordinary shares used in calculating diluted EPS	**1,025,165,579**	**910,139,794**

At the reporting date, 6,496,163 performance rights (FY20: 6,370,539) were outstanding, of which 3,267,462 (FY20: 6,370,539) were not included in the calculation of diluted EPS as they are not dilutive for the periods presented. Refer note 19 for more details about performance rights.

Notes to the Financial Statements

23. BUSINESS COMBINATIONS

Total Tools Holdings Pty Ltd ('Total Tools') and Total Tools JV Stores

In September 2020, Metcash acquired a 70% ownership interest in Total Tools Holdings Pty Ltd. Total Tools is the franchisor to the largest tool retail network in Australia with 82 bannered stores nationwide as at 1 September 2020.

In December 2020, Total Tools acquired ownership interests of between 51% and 60% in twelve Total Tools independent retail stores. Accordingly, Metcash holds an effective ownership interest of between 35.7% and 42% in these 'JV Stores'.

Details of the purchase consideration and the provisional fair values of the net assets acquired at the date of acquisition are as follows:

			Total Tools Group
	Total Tools Holdings $m	Total Tools JV Stores $m	Total $m
Net assets acquired			
Cash and cash equivalents	8.4	3.3	11.7
Trade and other receivables	17.0	8.5	25.5
Inventories	15.8	21.9	37.7
Trade payables and provisions	(26.5)	(18.5)	(45.0)
Property, plant and equipment	3.5	4.4	7.9
Intangibles	31.4	-	31.4
Lease liabilities (net)	(0.1)	-	(0.1)
Deferred tax assets (net)	(4.6)	-	(4.6)
Income tax payable	(1.5)	-	(1.5)
Net identifiable assets acquired	**43.4**	**19.6**	**63.0**
Non-controlling interest	(13.0)	(9.2)	(22.2)
Goodwill	26.5	32.1	58.6
Total purchase consideration	**56.9**	**42.5**	**99.4**

From the respective dates of acquisition, the Total Tools Group has contributed $141.1 million of sales revenue and $24.0 million of the earnings before interest and tax (EBIT) to the Metcash Group.

Put and call options written over non-controlling interests

In accordance with the AASB 10 *Consolidated Financial Statements*, the Group has recognised financial liabilities for the Total Tools put option and the Total Tools JV Store put options at their provisional fair values totaling $191.6 million and has derecognised the non-controlling interests of ($22.2 million) related to the acquisitions. Details of these put options are set out in note 13 of the financial report. As at the date of acquisition, the net amount of $169.4 million has been recognised as an adjustment to retained earnings as shown below:

			Total Tools Group
	Total Tools Holdings $m	Total Tools JV Stores $m	Total $m
Non-controlling interests derecognised	13.0	9.2	22.2
Adjustment recognised directly in equity (retained earnings)	109.2	60.2	169.4
Fair value of put options - recognised as a financial liability	**122.2**	**69.4**	**191.6**

Any changes in the value of the put option financial liabilities that occur subsequent to initial recognition will be recognised in the Statement of Comprehensive Income and will be disclosed within significant items. During the current year Metcash recognised an expense of $3.2 million in relation to the interest unwind on the net present value of the put option liabilities and nil expense in relation to other changes in the value of the put options.

Notes to the Financial Statements

23. BUSINESS COMBINATIONS (continued)

Purchase consideration – cash outflow

			Total Tools Group
	Total Tools Holdings $m	Total Tools JV Stores $m	Total $m
Cash consideration	57.5	42.5	100.0
Less: Cash and cash equivalents acquired	(8.4)	(3.3)	(11.7)
Net cash outflow – investing activities	**49.1**	**39.2**	**88.3**

Costs of $2.9 million that were incurred in relation to the Total Tools Group acquisition are included in significant items in the Statement of Comprehensive Income and in operating cash flows in the Statement of Cash Flows.

Other business combinations

In June 2020, Metcash acquired a private label brand portfolio from Kollaras & Co, which is a key accelerator of the Liquor pillar's private label growth strategy, for a total cash purchase price consideration of $26.2 million, of which $21.0 million is allocated to goodwill.

During the year, the Group also entered into a number of other business combinations that were not material to the Group, individually or in aggregate. The total cash purchase price consideration for these businesses was $28.6 million, of which $24.3 million is allocated to goodwill.

The accounting for the above business combinations is provisional as at 30 April 2021.

24. COMMITMENTS AND CONTINGENT LIABILITIES

Commitments

Capital operating expenditure

The Group had no material commitments for capital expenditure at 30 April 2021 (FY20: nil).

Contingent liabilities

	FY21 $m	FY20 $m
Bank guarantees to third parties in respect of property lease obligations	8.7	16.6
Bank guarantees in respect of Work Cover	2.0	2.7

Financial guarantee contracts

The Group has granted a financial guarantee contract relating to the bank loan of a joint venture, Adcome Pty Ltd. Under the contract, the bank has the right to require Metcash to repay the debt under certain prescribed circumstances of default. The estimate of the maximum amount payable in respect of the guarantee, if exercised, is $37.2 million (FY20: $46.5 million).

Had the guarantee been exercised at 30 April 2021, the amount payable would have been $35.2 million (FY20: $39.1 million). The fair value of the financial guarantee contract at the reporting date was $0.4 million (FY20: $1.1 million) and is recognised as a financial liability.

Put options

Put options, including in relation to Ritchies Stores Pty Ltd, are detailed along with other contingent liabilities in note 16 of the financial statements.

Notes to the Financial Statements

25. SUBSEQUENT EVENTS

On 28 June 2021, Metcash announced that it has increased its ownership in Total Tools Holdings (TTH) from 70% to 85% for an acquisition cost of $59.4 million. Metcash has also increased its debt facility to TTH from $40 million to $65 million. TTH has significant growth opportunities and this increase, together with a portion of the consideration for the additional 15% holding, is expected to help fund TTH's growth plans. This includes expansion of the store network and the acquisition of an ownership interest in a select number of stores.

In addition, the Group also announced that it is undertaking an Off-Market Buy-Back ('Buy-Back') of up to approximately $175.0 million[1]. This follows the Board's assessment of the Group's ability to distribute excess capital to shareholders having regard to: an improvement in the level of economic certainty; its near-term capital expenditure and working capital requirements; opportunities to grow and create shareholder value; while also maintaining a strong balance sheet with low gearing. Based on an expected Share Buy-Back of approximately $175.0 million, the Buy-Back, together with dividends for FY21, will result in approximately $354.0 million[2] being returned to shareholders.

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

Notes to the Financial Statements

Appendix A – Summary of significant accounting policies

1. BASIS OF ACCOUNTING

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

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

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

The current financial year comprises the 52-week period that commenced on 27 April 2020 and ended on 25 April 2021. The prior financial year comprised the 52-week period that commenced on 29 April 2019 and ended on 26 April 2020.

2. STATEMENT OF COMPLIANCE

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

(a) New or amended Accounting Standards and Interpretations

Several other amendments and interpretations apply for the first time in FY21, but do not have an impact on the financial report of the Group. These are as follows:

- AASB 2018-6 *Amendments to* AASB 3 *Definition of a Business*
- AASB 2018-7 *Amendments to* AASB *101 and* AASB *108 Definition of Material*
- AASB 2019-3 *Amendments to* AASB 7, AASB 9 *and* AASB 139 *Interest Rate Benchmark Reform on Hedge Accounting*
- AASB 2019-1 *Conceptual Framework for Financial Reporting*
- AASB 2017-6 *Amendments to Australian Accounting Standards (AASs) – Prepayment Features with Negative Compensation*
- AASB 2020-4 *Amendments to AASs - COVID-19-Related Rent Concessions*
- AASB 2018-2 *Amendments to AASs - Plan Amendment, Curtailment or Settlement*

In addition, in April 2021, IFRIC published an agenda decision in relation to the accounting treatment of configuration and customisation costs related to SaaS arrangements. The Group is currently assessing the impact the agenda decision will have on its current accounting policy and whether previously capitalised costs may need to be derecognised. Accordingly, the potential impact of the IFRIC agenda decision on the Group cannot be reliably estimated at the date of this report. The Group expects to complete the implementation of the above IFRIC agenda decision as part of its 31 October 2021 reporting.

(b) Australian Accounting Standards issued but not yet effective

A number of new accounting standards (including amendments and interpretations) have been issued but were not effective as at 30 April 2021. The following are the pronouncements that the Group has elected not to early adopt in these financial statements:

- Amendments to AASB 101: *Classification of Liabilities as Current or Non-current*
- Amendments to AASB 3: *Reference to Conceptual Framework*
- Amendments to AASB 116: *Property, Plant and Equipment: Proceeds before Intended Use*
- Amendments to AASB 137: *Onerous Contracts – Costs of Fulfilling a Contract*
- AASB 9 Financial Instruments: *Fees in the '10 per cent' test for derecognition of financial liabilities*

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

3. BASIS OF CONSOLIDATION

Controlled entities

The financial statements comprise the consolidated financial statements of Metcash Limited and its controlled entities for the year ended 30 April 2021. Refer Appendix B for a list of controlled entities.

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

Business combinations

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

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

The put option liability is subsequently remeasured at each reporting date at the estimated put option exercise price, with any change in value recorded within the Statement of Comprehensive Income, together with the net present value interest unwind on the put option liability.

Notes to the Financial Statements

Appendix A – Summary of significant accounting policies

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.

Separate financial statements

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

Foreign currency translation reserve

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

4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

(a) Significant accounting judgements

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

Charge-through sales

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

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

Assessment of control and joint control

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

Supplier income

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

Purchase price allocation

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

Valuation of put options

Determining the Total Tools and Ritchies put option consideration.

Determination of lease term of contracts with renewal options

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

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

(b) Significant accounting estimates and assumptions

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

Impairment of goodwill

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

Notes to the Financial Statements

Appendix A – Summary of significant accounting policies

Property provisions

The Group recognises provisions for rental agreements on acquisition (refer note 12 for further discussion). In measuring these provisions, assumptions are made about future retail sales, rental costs and in determining the appropriate discount rate to be used in the cash flow calculations.

The Group has recognised a provision in accordance with the accounting policy described in Appendix A.14. The Group assesses obligations on property make-good, restructuring and other costs. These estimates are determined using assumptions on property-related costs, redundancy and other closure or restructure costs.

Impairment of equity-accounted investments

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

Provision for expected credit losses (ECL) of receivables

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

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

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

5. TRADE AND OTHER RECEIVABLES

Trade receivables are measured at the transaction price determined under Appendix A.17.

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

6. DERIVATIVE FINANCIAL INSTRUMENTS

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

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

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

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

Fair value hedges

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

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

Cash flow hedges

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

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

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

Notes to the Financial Statements

Appendix A – Summary of significant accounting policies

Cash flow hedge reserve

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

Current versus non-current classification

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

7. EQUITY-ACCOUNTED INVESTMENTS

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

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

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

8. INVENTORIES

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

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

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:

	FY21	FY20
Freehold buildings	25-40 years	25-40 years
Plant and equipment	2-20 years	2-20 years

Derecognition

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

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

10. INTANGIBLE ASSETS

Recognition and measurement

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

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

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

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

Customer contracts are acquired through business combinations. Customer 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. The amortisation has been recognised in the statement of comprehensive income.

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

Notes to the Financial Statements

Appendix A – Summary of significant accounting policies

Derecognition

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

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

Useful lives

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

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

	FY21	FY20
Customer contracts	15 years	15 years
Software development costs	5-10 years	5-10 years
Other	10 years	10 years

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

11. IMPAIRMENT OF NON-FINANCIAL ASSETS

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

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

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

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

Impairment losses are recognised in the Statement of Comprehensive Income.

12. EMPLOYEE LEAVE BENEFITS

Wages, salaries, incentives, annual leave and sick leave

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

Long service leave

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

13. INTEREST-BEARING BORROWINGS

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

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

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

14. PROVISIONS

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

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

Notes to the Financial Statements

Appendix A – Summary of significant accounting policies

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

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

Group as a lessee

Right-of-use assets

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

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

Depreciation

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

	FY21	FY20
Leasehold properties	1-30 years	1-30 years
Motor vehicles and other equipment	4-5 years	4-5 years

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

Lease liabilities

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

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

Group as a lessor

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

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

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

Short-term leases and leases of low-value assets

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

16. SHARE-BASED PAYMENT TRANSACTIONS

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

The value of the performance rights issued is determined on the date which both the employee and the Group understand and agree to the share-based payment terms and conditions (grant date). The value at grant date is based upon the fair value of a similar arrangement between the Group and an independent third party and is determined using an appropriate valuation model. The fair value does not consider the impact of service or performance conditions, other than conditions linked to the share price of Metcash Limited (market conditions). Details of the valuation models used and fair values for each tranche of performance rights issued are outlined in note 19.

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

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

Notes to the Financial Statements

Appendix A – Summary of significant accounting policies

Share-based payments reserve

The share-based payments reserve is used to record the value of equity benefits provided to executives as part of their remuneration. Refer to note 19 for further details of these plans. Once a performance right has lapsed the Group no longer has any obligation to convert these performance rights into share capital. The amount transferred to retained earnings represents the value of share-based payments previously recognised as an expense that have subsequently lapsed.

17. REVENUE RECOGNITION

Sale of goods

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

Charge-through sales

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

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.

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 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.

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. COMPARATIVE INFORMATION

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

Notes to the Financial Statements

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.

	FY21 %	FY20 %
Entities within the Closed Group		
Action Holdings Pty Ltd	100	100
Action Supermarkets Pty Ltd	100	100
Australian Asia Pacific Wholesalers Pty Ltd	100	100
Australian Hardware Distributors Pty. Limited	100	100
Australian Hardware Support Services Pty Ltd	100	100
Australian Liquor Marketers (QLD) Pty Ltd	100	100
Australian Liquor Marketers (WA) Pty Ltd	100	100
Australian Liquor Marketers Pty. Limited	100	100
Big Bargain Bottleshops Australia Pty Ltd	100	100
Capeview Hardware Pty Ltd	100	100
City Ice & Cold Storage Company Proprietary Limited	100	100
Clancy's Food Stores Pty Limited	100	100
Composite Buyers Finance Pty Ltd	100	100
Composite Buyers Pty Limited	100	100
Community Co Australia Pty Ltd	100	100
Danks Holdings Pty Limited	100	100
Davids Foodservices Pty Ltd	100	100
Davids Group Staff Superannuation Fund Pty. Ltd.	100	100
Echuca Hardware Pty Ltd	100	100
Foodland Properties Pty Ltd	100	100
Foodland Property Holdings Pty Ltd	100	100
Franklins Pty Ltd	100	100
Franklins Supermarkets Pty Ltd	100	100
Fresco Supermarket Holdings Pty Ltd	100	100
Garden Fresh Produce Pty Ltd	100	100
G Gay Hardware Pty Ltd	100	100
Global Liquor Wholesalers Pty Limited	100	100
Hammer Hardware Stores Pty Ltd	100	100
Hardings Hardware Pty Ltd	100	100
Himaco Pty Ltd	100	100
Home Hardware Australasia Pty Ltd	100	100
Home Timber & Hardware Group Pty Ltd	100	100
Homestead Hardware Australasia Pty Ltd	100	100
HTH Events Pty Ltd	100	100
HTH Stores Pty Limited	100	100
Hudson Building Supplies Pty Limited	100	100
IGA Community Chest Limited	100	100
IGA Distribution (SA) Pty Limited	100	100
IGA Distribution (Vic) Pty Limited	100	100
IGA Distribution (WA) Pty Limited	100	100
IGA Fresh (Northern Queensland) Pty Limited	100	100
IGA Fresh (NSW) Pty Limited	100	100
IGA Retail Services Pty Limited	100	100
Independent Brands Australia Pty Limited	100	100
Independent Hardware Group Pty Ltd	100	100
Jewel Food Stores Pty Ltd	100	100
K&B Timber and Hardware Pty Ltd. (previously Banner 10 Pty Ltd)	100	100
Keithara Pty Ltd	100	100
Liquor Traders Pty Ltd	100	100
Liquorsmart Pty Ltd	100	100
M-C International Australia Pty Limited	100	100
Mega Property Management Pty Ltd	100	100
Mermaid Tavern (Trading) Pty Ltd	-	100
Metcash Food & Grocery Convenience Division Pty Limited	100	100
Metcash Food & Grocery Pty Ltd	100	100
Metcash Holdings Pty Ltd	100	100
Metcash Management Pty Limited	100	100
Metcash Services Proprietary Limited	100	100
Metcash Storage Pty Limited	100	100
Metcash Trading Limited	100	100
Metro Cash & Carry Pty Limited	100	100
Mirren (Australia) Pty Ltd	100	100
Mitre 10 Australia Pty Ltd	100	100
Mitre 10 Mega Pty Ltd	100	100
Mitre 10 Pty Ltd	100	100
Narellan Hardware Pty Ltd	100	100
National Retail Support Services Pty Ltd	100	100
Payless Superbarn (N S W) Pty Ltd	100	100
QIW Pty Limited	100	100
Queensland Independent Wholesalers Pty Limited	100	100
Quickstop Pty Ltd	100	100
Roma Hardware Pty Ltd	100	100
SE Hardware Pty Limited	100	100
South Coast Operations Pty Ltd	100	100
South West Operations Pty Ltd	100	100
Thrifty-Link Hardware Pty Ltd	100	100
Timberten Pty Ltd	100	100
UIAL NSW/ACT Pty Ltd	100	100
UIAL Tasmania Pty Ltd	100	100
Vawn No 3 Pty Ltd	100	100
W.A. Hardware Services Pty. Ltd	100	100
Entities outside of the Closed Group		
Central Timber 10 Pty Ltd	50	50
Faggs Geelong Pty Ltd	90	90
Finlayson Installations Pty Ltd	100	-
Finlayson Timber & Hardware Pty Ltd	100	-
Foodland Property Unit Trust	100	100
Feldman Tools Pty Ltd[1]	42	-
Futura Machinery Sales and Service Pty Ltd[1]	42	-
Gympie Property Investment Pty Ltd	84.7	84.7
Hardware Property Trust	100	100
IGA Retail Network Limited	100	100
Liquor Centres Auckland Limited (incorporated in New Zealand)	100	-

Notes to the Financial Statements

Appendix B – Information on subsidiaries

	FY21 %	FY20 %
Metoz Holding Limited (incorporated in South Africa) (In liquidation)	100	100
Mitre 10 Mega Property Trust	100	100
NFRF Developments Pty Ltd	51	51
Northern Hardware Group Pty Ltd	84.7	84.7
Nu Fruit Pty. Ltd.	51	51
Produce Traders Trust	100	100
Rainbow Unit Trust	100	100
Rainfresh Vic Pty Ltd	51	51
Retail Merchandise Services Pty Limited	100	100
Sunshine Hardware Pty Ltd	84.7	84.7
Tasman Liquor Company Limited (incorporated in New Zealand)	100	100
Tasmania Hardware Pty Ltd	80	80
Timber and Hardware Exchange Pty Ltd	68.4	68.4
Total Tools (Importing) Pty Ltd	70	-
Total Tools Commercial Pty Ltd	70	-
Total Tools Holdings Pty Ltd	70	-
Total Tools Industrial Pty. Limited	70	-
Total Tools Licensing Pty Ltd	70	-
Total Tools Moorabbin Store Pty Ltd	70	-
Total Tools New Zealand Limited	70	-
Total Tools Online Pty Ltd	70	-
Total Tools Stores Pty Ltd	70	-
TT Brookvale Pty Ltd	70	-
Total Tools Fyshwick Pty Ltd[1]	35.7	-
Toolshack Pty Ltd[1]	35.7	-
TT Brooklyn Pty Ltd[1]	35.7	-
TT Darwin Pty Ltd[1]	35.7	-
TT Geelong Pty Ltd[1]	35.7	-
TT Melton Pty Ltd[1]	35.7	-
TT South Melbourne Pty Ltd[1]	35.7	-
TT Adelaide West Pty Ltd[1]	42.0	-
TT Mackay Pty Ltd[1]	42.0	-
Wimbledon Property Trust	100	100

1. The Group has an indirect ownership of between 35.7% and 42% in these entities via its interest in Total Tools Holdings Pty Ltd. While the Group has beneficial ownership of less than 50% of these entities, the Group has control over key operating and financial decisions in these entities. Accordingly, these entities are accounted for as controlled entities.

Entities within the closed group as at 30 April 2021

Certain controlled entities of Metcash Limited, collectively referred to as the 'Closed Group', are party to a Deed of Cross Guarantee which meets the requirements of *ASIC Corporations (Wholly-owned Companies) Instrument 2016/785* (Instrument). Pursuant to the Instrument, entities within the Closed Group that have lodged an opt-in notice with ASIC within the requisite time limits are granted relief from standalone financial reporting and audit requirements of the *Corporations Act 2001*. Under the Deed of Cross Guarantee, the entities within the Closed Group, including Metcash Limited, have guaranteed to pay any outstanding debts or claims in the event of a winding up of any other entity within the Closed Group.

Summary Statement of Comprehensive Income of the Closed Group

	FY21 $m	FY20 $m
Distributions from subsidiaries outside the Closed Group	4.6	3.9
Other net income	302.7	265.3
Significant items	(17.0)	(268.5)
Profit before income tax	**290.3**	**0.7**
Income tax expense	(88.6)	(66.2)
Net profit/(loss) for the year	**201.7**	**(65.5)**

Notes to the Financial Statements

Appendix B – Information on subsidiaries

Summary Statement of Financial Position of the Closed Group

	FY21 $m	FY20 $m
Assets		
Cash and cash equivalents	76.7	251.8
Trade receivables and loans	1,519.3	1,528.3
Lease receivables	41.1	55.6
Inventories	874.7	976.3
Other current assets	12.0	12.1
Total current assets	**2,523.8**	**2,824.1**
Investments	318.1	189.0
Lease receivables	236.8	239.1
Property, plant and equipment	191.3	185.8
Net deferred tax assets	114.5	115.8
Intangible assets and goodwill	562.1	520.1
Right-of-use assets	551.2	457.7
Other non-current assets	15.7	25.7
Total non-current assets	**1,989.7**	**1,733.2**
Total assets	**4,513.5**	**4,557.3**
Liabilities		
Trade and other payables	1,940.5	1,986.4
Lease liabilities	129.9	165.4
Income tax payable	22.3	1.8
Provisions	126.7	109.0
Put options and other financial liabilities	20.8	7.2
Total current liabilities	**2,240.2**	**2,269.8**
Interest-bearing borrowings	-	188.4
Lease liabilities	831.3	690.9
Amounts due to related parties	22.7	41.6
Provisions	41.7	56.6
Put options and other financial liabilities	124.6	2.1
Total non-current liabilities	**1,020.3**	**979.6**
Total liabilities	**3,260.5**	**3,249.4**
Net assets	**1,253.0**	**1,307.9**
Equity		
Contributed and other equity 1 May	853.5	559.2
Equity raised, net of costs	13.5	294.3
Contributed and other equity, 30 April	**867.0**	**853.5**
Other reserves	(1.7)	(2.3)
Retained profits/(accumulated losses)		
Opening balance, 30 April (as previously stated)	456.7	642.0
Changes from the initial adoption of the new accounting standards	-	(1.6)
Opening balance, 1 May (restated)	456.7	640.4
Recognition of put option liability	(113.4)	-
Share of associate's adjustment on initial adoption of AASB 16 *Leases*	(9.0)	-
Net profit/(loss) for the year	201.7	(65.5)
Dividends paid	(148.3)	(118.2)
Closing balance	**387.7**	**456.7**
Total equity	**1,253.0**	**1,307.9**

Notes to the Financial Statements

Appendix C – Equity-accounted investments

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

The principal place of business for all of the Group's equity-accounted investments is Australia, with the exception of Metcash Export Services Pty Ltd, which primarily deals with customers in China.

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

Investee	Principal activities	Reporting date	FY21 %	FY20 %
Associates				
Ritchies Stores Pty Ltd	Grocery retailing	30 June	26.4	26.0
Dramet Holdings Pty Ltd	Grocery retailing	30 June	26.0	26.0
Metcash Export Services Pty Ltd	Grocery retailing	30 April	15.0	15.0
Joint ventures				
Adcome Pty Ltd	Grocery retailing	30 April	45.0	45.0
BMS Retail Group Holdings Pty Ltd	Grocery retailing	30 June	49.0	49.0
Waltock Pty Limited	Hardware retailing	30 June	49.0	49.0
LA United Pty Ltd[1]	Liquor wholesaling	30 June	75.3	75.3
Liquor Alliance Pty Ltd[1]	Liquor wholesaling	30 June	66.7	66.7

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

Directors' Declaration

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

1. In the opinion of the directors:
   a. The financial statements, notes and the additional disclosures included in the directors' report designated as audited, of Metcash Limited are in accordance with the *Corporations Act 2001*, including:
      i. Giving a true and fair view of the consolidated entity's financial position as at 30 April 2021 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 2021.
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

Jeff Adams
Director
Sydney, 28 June 2021

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Auditor's Independence Declaration to the Directors of Metcash Limited

As lead auditor for the audit of the financial report of Metcash Limited for the financial year ended 30 April 2021, I declare to the best of my knowledge and belief, there have been:

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

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

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

Ernst & Young

Christopher George
Partner
28 June 2021

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Independent Auditor's Report to the Members of Metcash Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Metcash Limited (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 30 April 2021, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

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

a) giving a true and fair view of the consolidated financial position of the Group as at 30 April 2021 and of its consolidated financial performance for the year ended on that date; and

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

Basis for Opinion

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

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

Key Audit Matters

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

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

Impairment assessment for goodwill and other intangible assets

Why significant	How our audit addressed the key audit matter
At 30 April 2021 the Group's consolidated statement of financial position includes goodwill and other intangible assets with a carrying value $729.1 million, representing 15.0% of total assets. The Group recognised $135.6 million, in goodwill and other intangible assets arising from business acquisitions during the year. The Directors have assessed goodwill and other intangible assets for impairment at 30 April 2021. As disclosed within Note 10 to the financial statements, the assessment of the impairment of the Group's goodwill and other intangible assets incorporated significant judgments and estimates, based upon conditions existing as at 30 April 2021, specifically concerning factors such as forecast cashflows, discounts rates and terminal growth rates. The estimates and assumptions relate to future performance, market and economic conditions including the continuing impact on the Group of the COVID-19 pandemic. Significant assumptions used in the impairment testing referred to above are inherently subjective and in times of economic uncertainty caused by the COVID-19 pandemic, the degree of subjectivity is higher than it might otherwise be. In this situation the disclosures in the financial report provide particularly important information about the assumptions made in the impairment testing and the market conditions at 30 April 2021. As a result, we considered the impairment testing of goodwill and other intangible assets and the related disclosures in the financial report to be particularly significant to our audit. For the same reasons we consider it important that attention is drawn to the information in Note 10.	Our audit procedures included the following: ▸ Assessed the Group's determination of the cash generating units (CGUs) used in the impairment model, based on our understanding of the nature of the Group's business and the economic environment in which the segments operate. We also considered internal reporting of the Group's results to assess how earnings and goodwill are monitored and reported ▸ Assessed the Group's allocation of additional goodwill arising from business combinations to CGUs used in the impairment model ▸ Assessed the cash flow forecasts, assumptions and estimates used by the Group, as outlined in Note 10 to the financial statements, by considering the reliability of the Group's historical cash flow forecasts, our knowledge of the business and corroborating data with external information where possible ▸ Evaluated the appropriateness of discount and terminal growth rates applied with involvement from our valuation specialists ▸ Tested the mathematical accuracy of the impairment testing models including the consistency of relevant data with latest Board approved forecasts ▸ Performed sensitivity analysis on key assumptions including discount rates, terminal growth rates and EBIT forecasts for each of the Group's CGUs Assessed the adequacy of the financial report disclosures contained in Note 10.

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Accounting for the Total Tools acquisition

Why significant	How our audit addressed the key audit matter
On 1 September 2020, the Group entered into a Share Sale Agreement to acquire a 70% interest in Total Tools Holdings Pty Ltd ("Total Tools"), which was accounted for on a provisional basis. In accordance with the Share Sale Agreement, the minority shareholders have the right to require the Group to acquire their 30% shareholding in Total Tools via a put option, exercisable during the three-month period between 1 November 2023 and 31 January 2024. The Group also has the right to acquire the remaining 30% equity interest in Total Tools via a call option, exercisable at any time from 1 November 2023. The call and put option purchase consideration ("option purchase price") is based on an EBITDA multiple calculation adjusted for a number of items, including net debt and working capital in the exercise period. Subsequent to the acquisition of Total Tools, the Group entered into agreements with franchisee owners, for the purchase of a controlling interest over 12 Total Tools' stores, with put and call options established over the remaining equity interest in each of the stores. The acquisition accounting for these transactions is a complex and judgemental exercise, requiring management to determine the purchase price allocation in relation to the fair value of acquired assets and liabilities and to determine the appropriate accounting treatment and valuation of the put and call options over the non-controlling interests. Disclosure in relation to these acquisitions can be found in Note 23 of the financial report.	Our audit procedures included the following: ▸ Considered the terms and conditions of the Share Sale Agreements of Total Tools Holdings Pty Ltd and the franchisee stores ▸ Evaluated the process that management and the directors have undertaken to perform the provisional purchase price allocation of the consideration for the acquired assets and liabilities ▸ Assessed the valuation assumptions used in the determination of the fair value of the acquired assets and liabilities and the amount recognised as goodwill ▸ Assessed the appropriateness of the accounting treatment of the put and call options over the non-controlling interests ▸ Considered the assumptions used by management in the determination of the fair value of the financial liability for the put options over the non-controlling interests ▸ Evaluated the appropriateness of the discount rate applied with involvement from our valuation specialists Assessed the adequacy of the financial report disclosures contained in Note 23.

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Accounting for rebates

Why significant	How our audit addressed the key audit matter
Appendix A.8 of the financial report outlines the Group's accounting policy relating to supplier rebates, or supplier income as they are referred to in the financial report. The Group receives rebates and other similar incentives from suppliers which are determined based upon a number of measures which can include volumes of inventory purchased, sold, and the performance of promotional activities. We considered this to be a key audit matter as supplier rebates contributed significantly to the Group's results, there are a large number of specific agreements in place and some of the arrangements require judgment to be applied in determining the timing of rebate recognition and the appropriate classification within the consolidated statement of comprehensive income based upon the terms of the agreement.	Our audit procedures included the following: ► Evaluated the Group's processes and design of controls relating to the recognition and valuation of rebate amounts recognised and classified within the consolidated statement of comprehensive income ► Assessed the operating effectiveness of relevant controls in place relating to the recognition and measurement of volumetric, purchase value and sales value related rebates ► Selected a sample of supplier rebates including non-volumetric supplier rebates, received and accrued for during the year and tested whether the income was correctly calculated and recognised in the correct period ► Considered the impact of supplier claims during and subsequent to year end on amounts recognised ► Inquired of management and the Directors as to the existence of any non-standard agreements or side arrangements.

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

The directors are responsible for the other information. The other information comprises the information included in the Group's 2021 Annual Report other than the financial report and our auditor's report thereon. We obtained the Directors' Report that is to be included in the Annual Report, prior to the date of this auditor's report, and we expect to obtain the remaining sections of the Annual Report after the date of this auditor's report.

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

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

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

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Responsibilities of the Directors for the Financial Report

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

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

Auditor's Responsibilities for the Audit of the Financial Report

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

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

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

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- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion. We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

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

Report on the Audit of the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 56 to 71 of the Directors' report for the year ended 30 April 2021.

In our opinion, the Remuneration Report of Metcash Limited for the year ended 30 April 2021, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

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

Ernst & Young

Christopher George
Partner
Sydney
28 June 2021

ASX Information

Additional information required by the Australian Securities Exchange and not shown elsewhere in this report is as follows. The information is current as at 30 June 2021:

DISTRIBUTION OF EQUITY SECURITIES

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

Size of holding	Number of shareholders	Percentage of shares
1 – 1,000	7,028	0.37%
1,001 – 5,000	9,055	2.34%
5,001 – 10,000	3,385	2.47%
10,001 – 100,000	2,751	6.19%
100,001 and over	110	88.63%
Total	**22,329**	**100.00%**

There were 760 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	396,918,993	38.82%
J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	187,655,733	18.36%
CITICORP NOMINEES PTY LIMITED	144,906,365	14.17%
NATIONAL NOMINEES LIMITED	70,962,218	6.94%
BNP PARIBAS NOMINEES PTY LTD <AGENCY LENDING DRP A/C>	17,282,775	1.69%
BNP PARIBAS NOMS PTY LTD <DRP>	16,575,099	1.62%
CITICORP NOMINEES PTY LIMITED <COLONIAL FIRST STATE INV A/C>	15,106,070	1.48%
HSBC CUSTODY NOMINEES	5,654,398	0.55%
BNP PARIBAS NOMINEES PTY LTD SIX SIS LTD <DRP A/C>	3,518,256	0.34%
UBS NOMINEES PTY LTD	3,269,001	0.32%
NAVIGATOR AUSTRALIA LTD <SMA ANTARES INV DV BUILD A/C>	3,237,213	0.32%
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2	2,617,030	0.26%
MERRILL LYNCH (AUSTRALIA) NOMINEES PTY LIMITED	2,366,603	0.23%
BUTTONWOOD NOMINEES PTY LTD	2,107,336	0.21%
POWERWRAP LIMITED <SCHEME - IML TRADES A/C>	1,779,825	0.17%
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED <NT-COMNWLTH SUPER CORP A/C>	1,775,721	0.17%
BNP PARIBAS NOMS (NZ) LTD <DRP>	1,639,463	0.16%
CERTANE CT PTY LTD <METCASH EMPLOYEE SHARE PLAN>	1,630,417	0.16%
BNP PARIBAS NOMS PTY LTD <ARBITAGE SNC DRP>	1,397,322	0.14%
UBS NOMINEES PTY LTD	1,393,191	0.14%
Total	**881,793,029**	**86.25%**

SUBSTANTIAL SHAREHOLDERS

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

	Number of shares
Pendal Group Limited	124,012,070
Allan Gray Australia Pty Ltd	107,130,944
The Vanguard Group, Inc	61,420,001
State Street Corporation	51,804,192

VOTING RIGHTS

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

Corporate Information

Directors
Jeff Adams (Group CEO)
Peter Birtles
Tonianne Dwyer
Christine Holman
Murray Jordan
Robert Murray (Chair)
Helen Nash

Company Secretary
Julie Hutton

Share Register
Boardroom Pty Limited
GPO Box 3993
Sydney NSW 2001

Freecall: 1800 655 325
Telephone: 61 2 9290 9600

Auditor
Ernst & Young
200 George Street
Sydney NSW 2000 Australia

Telephone: 61 2 9248 5555

Metcash Limited
ABN 32 112 073 480

1 Thomas Holt Drive
Macquarie Park NSW 2113

PO Box 557
Macquarie Park NSW 1670

Telephone: 61 2 9741 3000

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

PO Box 557
Macquarie Park NSW 1670

Telephone: 61 2 9741 3000

Australian Liquor Marketers (Head Office)
1 Thomas Holt Drive
Macquarie Park NSW 2113

PO Box 557
Macquarie Park NSW 1670

Telephone: 61 2 9741 3000

Independent Hardware Group (Head Office)
19 Corporate Drive
Heatherton VIC 3202

Telephone: 1300 880 440

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

Food

Liquor

Hardware

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Metcash