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

5 December 2019

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

Dear Sir/Madam

METCASH LIMITED – 2020 HALF YEAR RESULTS AND FINANCIAL REPORT

In accordance with ASX Listing Rule 4.2A, please find attached the following documents for release to the market:

a) ASX Announcement – Metcash Limited 2020 Half Year Results

b) Appendix 4D and Financial Report (including the Directors' Report and Independent Auditor's Review Report) of Metcash Limited and its controlled entities for the half year ended 31 October 2019.

Yours faithfully

Julie Hutton
Company Secretary

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

5 December 2019

ASX Announcement

Metcash Limited 2020 Half Year Results

- Group highlights:
  - Total Food pillar sales (including charge-through sales) increased 1.2%, with Supermarkets wholesale sales ex tobacco being positive[1] for the first time since FY12
  - Liquor delivered its sixth consecutive year of earnings growth
  - Our Trade-focused Hardware pillar continued to perform well despite difficult trading conditions
  - MFuture programs progressing across all pillars
- Statutory results for 1H20 reflect adoption of the new Accounting Standard AASB16 *Leases*. Prior period comparatives have not been restated for the impact of AASB16. To enable comparison, the results for 1H20 have been adjusted, where appropriate, to exclude the impact of AASB16
- Group sales (including charge-through sales) increased 0.5% to $7.2bn
- Reported loss after tax of $151.6m includes an impairment of $237.4m (post tax) following the loss of the 7-Eleven contract (1H19 Pre AASB16: Reported profit after tax of $95.8m)
- Underlying profit after tax (pre AASB16) was $95.7m (1H19: $100.3m)[2] negatively impacted by:
  - Contribution from resolution of onerous lease obligations being ~$10m higher in 1H19
  - Ceasing to supply Drakes in South Australia from 30 September 2019
- Group underlying EBIT (pre AASB16) declined $8.4m to $149.7m
  - Food EBIT down $7.8m to $85.2m – higher contribution from resolution of onerous leases in 1H19
  - Liquor EBIT up $0.5m to $29.6m – flow through from higher sales
  - Hardware EBIT down $0.5m to $37.3m – resilience in cycle downturn which negatively impacted Trade sales
- Strong balance sheet
- Interim dividend of 6.0 cents per share, fully franked

Group Overview

Metcash Limited (ASX:MTS) today released its financial results for the six months ended 31 October 2019. These results incorporate the introduction of the new Accounting Standard AASB16 *Leases*. As the prior corresponding period has not been restated for AASB16, adjustments to 1H20 results have been made, where appropriate, to enable effective comparisons.

Reported Group revenue, which excludes charge-through sales, increased 1.6% to $6.3bn (1H19: $6.2bn). Including charge-through sales, Group revenue increased 0.5% to $7.21bn (1H19: $7.17bn), with sales growth in the Food and Liquor pillars, partly offset by a decline in Hardware sales.

Group underlying EBIT (pre AASB16) declined 5.3% to $149.7m (1H19: $158.1m), largely reflecting a lower contribution in the Food pillar from the resolution of onerous lease obligations and ceasing to supply Drakes Supermarkets in South Australia with effect from 30 September 2019.

The Hardware Pillar performed relatively well with growth and cost initiatives mostly offsetting the adverse impact of the slowdown in construction activity. The Liquor business also continued to perform well delivering another period of earnings growth.

Underlying profit after tax (pre AASB16) declined 4.6% to $95.7m (1H19: $100.3m)[2] largely reflecting the decline in EBIT noted above. Underlying earnings per share (pre AASB16) declined by 0.9% to 10.5 cents, reflecting the benefit of the company's share buy-back in FY19. Reported loss after tax was $151.6m (1H19 Pre AASB16: Reported profit after tax of $95.8m).

Group operating cashflow (post AASB16) for the half was $88.8m. Net debt as at 31 October 2019 was $95.3m (FY19: $35.5m).

Group CEO, Jeff Adams said: "The first half included some significant achievements for the Group, particularly in our Food pillar.

"I am pleased to report that our Supermarkets business delivered wholesale sales growth, including on an ex tobacco basis after adjusting for the impact of ceasing to supply Drakes[1]. This is the first reported increase in wholesale sales ex tobacco since FY12.

"The improvement in Supermarkets was broad-based with all states reporting an increase in the sales trajectory. Western Australia, our most challenging state, improved significantly with sales broadly in-line with the prior corresponding half after many years of decline.

"It was also pleasing to see 'like for like' sales in our IGA retail network return to growth. We are continuing to work closely with our retailers and have made progress with implementing and accelerating initiatives under the MFuture program.

"Retailer confidence is improving and this is driving further investment to improve the quality and competitiveness of the IGA store network.

"Our Liquor business continued to perform well, delivering earnings growth for the sixth consecutive year. Our initiatives focused on the 'on-premise' channel and the private and exclusive labels category are delivering good results. These initiatives, together with expanding our digital capability are key priorities under the MFuture program.

"We have a strong and diversified Hardware business which continued to perform well despite Trade sales being affected by the slowdown in construction activity. The business has good initiatives, including continuing to invest in the network alongside its retailers, and remains well positioned to manage through the downturn in the business cycle.

"It was disappointing to receive advice from 7-Eleven last month that they will not be renewing our current supply agreement which concludes in August next year. The cost of more onerous supply requirements going forward unfortunately made the contract uneconomic for us.

"Our financial position remains strong and this provides us with flexibility to fund our current initiatives, as well as consider future growth opportunities that create value for our shareholders," Mr Adams said.

Review of Trading Results

Food

Total Food sales (including charge-through sales) increased 1.2% to $4.4bn (1H19: $4.3bn).

In Supermarkets, total sales (including charge-through sales) increased 0.8% to $3.6bn. Excluding the impact of ceasing to supply Drakes in South Australia from 30 September 2019, total sales increased 1.2%[1].

There was continued improvement in the sales trajectory of wholesale sales (ex tobacco) which declined 0.3% (1H19: -1.9%). Excluding the impact of ceasing to supply Drakes, non-tobacco sales increased 0.3%[1], which represents the first reported half year period increase in non-tobacco sales since FY12.

The sales trajectory improved in all states, with Queensland the strongest performer. In Western Australia, there was a significant improvement with sales being broadly in line with the prior corresponding half. In South Australia, sales returned to positive growth (ex Drakes impact)[1] with the Foodland stores performing well in the period post Metcash ceasing to supply Drakes.

The improvement in sales was supported by the successful execution of growth initiatives and a further reduction in price deflation[3] to -0.1% (1H19: -1.3%). The business continued to work closely with suppliers to further improve the price competitiveness of our retailers.

There was an improvement in the sales performance of the IGA retail network with 'like for like' (LfL)[4] sales up 0.4% (1H19: -0.2%).

Supermarkets' teamwork score continued to improve, increasing two percentage points to ~74% (1H19: ~72%).

Convenience sales increased 2.8% to $784.6m (1H19: $762.9m) reflecting mainly increased tobacco sales from major customers.

Food EBIT (pre AASB16) decreased $7.8m to $85.2m, negatively impacted by a ~$10m reduction in the contribution from the resolution of onerous lease obligations and the adverse impact of ceasing to supply Drakes Supermarkets from 30 September 2019, partly offset by improved wholesale sales (ex tobacco); cost savings through simplification and other initiatives; improved earnings from joint ventures and corporate stores; and a positive contribution from the Convenience business.

The EBIT margin[5] for the Food pillar declined 20 basis points to 1.9%, which reflects the lower EBIT.

Reported EBIT was $88.4m and includes a positive AASB16 adjustment of $3.2m.

Liquor

Total Liquor sales (including charge-through sales) increased 1.7% to $1.78bn (1H19: $1.75bn), reflecting continuation of the 'premiumisation trend' to higher value, but lower consumption.

Wholesale sales to contract customers and non-bannered stores increased due to the addition of new customers and growth in 'on-premise' sales.

Warehouse sales to the IBA bannered network increased 1.7% on a LfL basis (1H19: 2.0%).

Liquor reported its sixth consecutive year of earnings growth with EBIT (pre AASB16) increasing $0.5m to $29.6m, as the contribution from increased sales more than offset an increase in costs. The EBIT margin was maintained at 1.7%.

Reported EBIT was $30.7m and includes a positive AASB16 adjustment of $1.1m.

Hardware

Hardware sales (including charge-through sales) declined 4.2% to $1.04bn (1H19: $1.09bn) mainly reflecting the impact of the slowdown in construction activity on Trade sales. Excluding the loss of a large customer in Queensland in 1H19, sales declined 2.5%.

Total wholesale LfL sales to the IHG banner group decreased 2.6%[6]. Retail sales through the IHG banner group decreased 3.2%[7].

The decline in Trade sales was partly offset by an improvement in DIY sales supported by acceleration of the Sapphire store upgrade program and expansion of the digital platform. Trade sales account for 64% (1H19: 65%) of total Hardware sales.

Hardware EBIT (pre AASB16) decreased $0.5m to $37.3m (1H19: $37.8m), reflecting the impact of the decline in Trade sales, partly offset by the contribution from improved DIY sales, cost efficiencies and full synergy benefits from the Home Timber & Hardware acquisition.

The EBIT margin increased 10 basis points to 3.6% (1H19: 3.5%) reflecting an increase in the proportion of retail sales in the sales mix.

Reported EBIT was $38.9m and includes a positive AASB16 adjustment of $1.6m.

Asset Impairment / 7-Eleven Contract

On 22 November 2019, Metcash announced that it had been advised by 7-Eleven that it will not be renewing the current supply agreement with Metcash following its conclusion on 12 August 2020. Metcash was unable to reach agreement with 7-Eleven on its supply requirements for the east coast, including delivery routes and scheduling which Metcash determined would be uneconomic to the company. Metcash remains in discussions with 7-Eleven to continue supply in Western Australia, as well as a number of smaller categories on the east coast. Total Convenience annual sales to 7-Eleven are ~$800m and comprise predominantly lower-margin tobacco sales.

On 3 December 2019, Metcash announced that its financial statements for the half year ended 31 October 2019 will recognise a $237.4m (post tax) impairment to goodwill and other assets in the Food pillar.

This impairment followed the company's review of the carrying value of its assets undertaken as part of its process for preparation of the 1H20 financial statements, which took into account the future loss of volumes to 7-Eleven. The expected future earnings impact of the loss of 7-Eleven volumes is ~$15m EBIT (annualised), after adjusting for mitigating cost savings.

In accordance with Australian Accounting Standards, the assessment of the carrying value of goodwill cannot take into account any future mitigating cost savings.

The impairment is non-cash in nature, has no impact on the company's debt facilities or compliance with banking covenants.

The impairment charge is disclosed separately as a significant item in the company's 1H20 financial statements.

Financial Position

Operating cash flow for the half was $88.8m, which represents a cash realisation ratio of 52.4% (1H19: 93.7%). The lower cash realisation ratio was predominantly due to an increase in investment in working capital in the half.

Net debt was $95.3m at the end of the half (FY19: $35.5m).

Final dividend

The Board has determined to pay an interim dividend of 6.0 cents per share, fully franked. The record date for the interim dividend is 18 December 2019 and payment will be made on 23 January 2020.

Outlook

The growth in Supermarkets wholesale sales ex tobacco reported in 1H20 has continued in the first five weeks of 2H20, excluding the impact of Drakes. Total Supermarkets sales for 2H20 will, however, be negatively impacted by ceasing to supply Drakes in South Australia from 30 September 2019.

The Group continues to look for opportunities to exit onerous lease contracts, however the contribution to profit from this activity in future periods is expected to reduce.

The Food pillar's continued focus on costs is expected to help offset the impact of cost inflation over the remainder of FY20.

In Liquor, market growth over the remainder of FY20 is expected to continue to be influenced by the 'premiumisation' trend to higher quality but lower consumption. The business is continuing to progress its growth initiatives under the MFuture program with opportunities in private and exclusive label, the 'on-premise' market and digital being prioritised under the new Liquor CEO.

In Hardware, Trade sales over the remainder of FY20 are expected to continue to be impacted by the slowdown in construction activity. Non-trade sales are expected to be less impacted due to the level of DIY activity and acceleration of the Sapphire store upgrade program. The business continues to have a strong focus on costs to help offset the impact of the slowdown in construction activity.

The market fundamentals for Hardware over the medium to longer term remain positive with construction activity expected to be underpinned by population growth and an undersupply of housing.

ends

For further information:

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[1] Metcash ceased supply to Drakes in SA from 30 September 2019. Sales growth has been calculated by removing Drakes sales from the prior period (1 October 2018 to 31 October 2018).

[2] In 1H20 underlying profit after tax excludes MFuture restructure costs of $4.8m (post tax) and asset impairment of $237.4m (post tax). In 1H19 underlying profit after tax excludes Working Smarter restructure costs of $4.5m (post tax).

[3] Excludes tobacco and produce.

[4] Scan data from 1,093 IGA stores.

[5] Based on EBIT (pre AASB16) and sales (including charge-through).

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

[7] Based on a sample of 190 network stores that provide scan data (represents >50% of sales).

Metcash Group

Metcash Limited (ABN 32 112 073 480) and its controlled entities

Appendix 4D for the half year ended 31 October 2019 (1H20)

Results for announcement to the market

		Comparable financial information			
	1H20 as reported $m	**1H20 pre AASB 16 (unaudited) (i) $m**	**1H19 as reported $m**	**Variance $m**	**Variance %**
Sales revenue	**6,289.8**	**6,289.8**	**6,189.2**	**100.6**	**1.6**
Earnings before interest, tax, depreciation and amortisation (EBITDA)	234.7	179.3	186.2	(6.9)	(3.7)
Depreciation and amortisation	(79.0)	(29.6)	(28.1)	(1.5)	(5.3)
Earnings before interest and tax (EBIT)	**155.7**	**149.7**	**158.1**	**(8.4)**	**(5.3)**
Net finance costs	(27.0)	(13.8)	(14.5)	0.7	4.8
Underlying profit before tax	128.7	135.9	143.6	(7.7)	(5.4)
Tax expense on underlying profit	(37.6)	(39.7)	(42.5)	2.8	6.6
Non-controlling interests	(0.5)	(0.5)	(0.8)	0.3	37.5
Underlying profit after tax (ii)	**90.6**	**95.7**	**100.3**	**(4.6)**	**(4.6)**
Significant items	(249.3)	(249.3)	(6.5)	(242.8)	(3,735.4)
Tax benefit attributable to significant items	7.1	7.1	2.0	5.1	255.0
Net (loss)/profit for the period attributable to members	**(151.6)**	**(146.5)**	**95.8**	**(242.3)**	**(252.9)**
Underlying earnings per share (cents) (iii)	**10.0**	**10.5**	**10.6**	**(0.1)**	**(0.9)**
Reported (loss)/profit per share (cents)	(16.7)	(16.1)	10.1	(26.2)	(259.4)

(i) Whilst the 1H20 financial report is subject to a review by the Group's auditors, pre AASB 16 financial information for 1H20 is unaudited and is not reviewed by the auditors.

(ii) Underlying profit after tax (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 1H20 financial report.

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

Explanatory note on results

Reported Group revenue, which excludes charge-through sales, increased 1.6% to $6.29 billion (1H19: $6.19 billion). Including charge-through sales, Group revenue increased 0.5% to $7.21 billion (1H19: $7.17 billion) with sales growth in the Food and Liquor pillars, partly offset by a decline in Hardware sales.

Group underlying EBIT (pre AASB16) declined 5.3% to $149.7 million (1H19: $158.1 million) largely reflecting a lower contribution in the Food pillar from the resolution of onerous lease obligations and ceasing to supply Drakes Supermarkets in South Australia with effect from 30 September 2019.

The Hardware pillar performed relatively well with growth and cost initiatives mostly offsetting the adverse impact of the slowdown in construction activity. The Liquor business also continued to perform well delivering another period of earnings growth.

This Appendix 4D should be read in conjunction with the Metcash Half Year Financial Report for 31 October 2019.

Appendix 4D (continued)

For the half year ended 31 October 2019

Explanatory note on results (continued)

Underlying profit after tax (pre AASB16) declined 4.6% to $95.7 million (1H19: $100.3 million) largely reflecting the decline in EBIT noted above. Underlying earnings per share (pre AASB16) only declined by 0.9% to 10.5 cents, reflecting the benefit of the Company's share buy-back in FY19. Reported loss after tax was $151.6 million (1H19 pre AASB16: Reported profit after tax of $95.8 million), including an impairment of $237.4 million (post tax) against goodwill and other assets.

Dividends on ordinary shares

On 5 December 2019, the Board determined to pay a fully franked FY20 interim dividend of 6.0 cents per share, sourced from the profit reserve established by Metcash Limited (Parent Company), with a record date of 18 December 2019 and payable in cash on 23 January 2020. The Dividend Reinvestment Plan remains suspended with effect from 26 June 2017.

Other disclosures

Net tangible assets backing

At 31 October 2019, the net tangible assets was 48.7 cents per share (FY19: 50.2 cents per share).

Entities where control has been gained or lost

There were no changes in control over entities during the current period that were material to the Group.

Statement of compliance

This report is based on the consolidated half year financial report of Metcash Limited and its controlled entities which has been reviewed by Ernst & Young. The financial report was lodged with the ASX on 5 December 2019.

Metcash Limited has a formally constituted audit committee.

On behalf of the Board

Jeff Adams
Director
Sydney, 5 December 2019

This Appendix 4D should be read in conjunction with the Metcash Half Year Financial Report for 31 October 2019.

Metcash Limited

ABN 32 112 073 480

Financial Report

For the half year ended 31 October 2019

Directors’ report

For the half year ended 31 October 2019

Your Directors submit their report of Metcash Limited (the ‘Company’) and its controlled entities (together the ‘Group’ or ‘Metcash’) for the half year ended 31 October 2019 (‘1H20’).

Board information

The directors in office during 1H20 and up to the date of this report are as follows.

Robert Murray (Chairman)
Jeffery Adams (Chief Executive Officer)
Peter Birtles (appointed 1 August 2019)
Tonianne Dwyer
Murray Jordan
Helen Nash
Wai Tang (appointed 1 August 2019)
Fiona Balfour (retired effective 28 August 2019)
Anne Brennan (resigned effective 28 August 2019)

Review of results and operations

The financial results for 1H19 were not retrospectively restated for AASB 16 *Leases*, which was adopted in 1H20. The following table includes pre AASB 16 financial information presented on a comparable basis for 1H20 and 1H19. Whilst the 1H20 financial report is subject to a review by the Group’s auditors, pre AASB 16 financial information for 1H20 is unaudited and is not reviewed by the auditors. Refer Appendix B for further details.

			Comparable financial information		
	1H20 as reported $m	**Less: AASB 16 impact $m**	**1H20 pre AASB 16 (unaudited) $m**	**1H19 as reported $m**	**Variance %**
Food	88.4	(3.2)	85.2	93.0	(8.4)
Liquor	30.7	(1.1)	29.6	29.1	1.7
Hardware	38.9	(1.6)	37.3	37.8	(1.3)
Corporate	(2.3)	(0.1)	(2.4)	(1.8)	(33.3)
Underlying earnings before interest and tax (‘EBIT’)	**155.7**	**(6.0)**	**149.7**	**158.1**	**(5.3)**
Finance costs, net	(27.0)	13.2	(13.8)	(14.5)	4.8
Underlying profit before tax	128.7	7.2	135.9	143.6	(5.4)
Tax expense on underlying profit	(37.6)	(2.1)	(39.7)	(42.5)	6.6
Non-controlling interests	(0.5)	-	(0.5)	(0.8)	37.5
Underlying profit after tax	**90.6**	**5.1**	**95.7**	**100.3**	**(4.6)**
Significant items	(249.3)	-	(249.3)	(6.5)	-
Tax benefit attributable to significant items	7.1	-	7.1	2.0	-
Net (loss)/profit for the period attributable to members	**(151.6)**	**5.1**	**(146.5)**	**95.8**	**-**

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

On 22 November 2019, Metcash advised the market that the 7-Eleven group of convenience stores (7-11) had communicated their intention not to renew the current supply agreement with Metcash following its conclusion on 12 August 2020. Following this advice, the Group reassessed the recoverable amount of the Food business, and recorded an impairment expense of $242.4 million against the carrying value of goodwill and other assets. This expense is presented separately within ‘significant items’ in the income statement. Refer note 3 of the financial report for further information.

Auditor’s independence

The auditor’s independence declaration for the half year has been received and is included on page 20.

Directors' report (continued)

For the half year ended 31 October 2019

Subsequent events

Other than the matters disclosed in this report, there were no events that have occurred after the end of the half 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*.

Signed in accordance with a resolution of the Directors.

Jeff Adams
Director
Sydney, 5 December 2019

Statement of comprehensive income

For the half year ended 31 October 2019

	Notes	1H20 $m	1H19 $m
Sales revenue	2	6,289.8	6,189.2
Cost of sales		(5,659.6)	(5,566.2)
Gross profit		**630.2**	**623.0**
Other income	3	27.3	53.8
Employee benefit expenses	3	(320.3)	(319.3)
Depreciation and amortisation	3	(79.0)	(28.1)
Lease expenses	3	(47.4)	(129.4)
Provisions for impairment, net of reversals	3	(8.9)	2.2
Other expenses		(46.2)	(44.1)
Underlying EBIT		**155.7**	**158.1**
Finance costs, net	3	(27.0)	(14.5)
Significant items	3	(249.3)	(6.5)
(Loss)/profit before income tax		**(120.6)**	**137.1**
Income tax expense		(30.5)	(40.5)
Net (loss)/profit for the period		**(151.1)**	**96.6**
Other comprehensive income for the period, net of tax		(0.9)	(0.6)
Total comprehensive (loss)/income for the period		**(152.0)**	**96.0**
Net (loss)/profit for the period is attributable to:			
Equity holders of the parent		**(151.6)**	**95.8**
Non-controlling interests		0.5	0.8
		(151.1)	**96.6**
Total comprehensive (loss)/income for the period is attributable to:			
Equity holders of the parent		(152.5)	95.2
Non-controlling interests		0.5	0.8
		(152.0)	**96.0**
Earnings per share attributable to the ordinary equity holders of the Company			
From net (loss)/profit for the period			
- basic (loss)/earnings per share (cents)		(16.7)	10.1
- diluted (loss)/earnings per share (cents)		(16.7)	10.1

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

The financial results for 1H19 were not restated upon the initial adoption of AASB 16 Leases in 1H20. Refer Appendix B for a further description of the impact of AASB 16.

Statement of financial position

As at 31 October 2019

	Notes	1H20 $m	FY19 $m
ASSETS			
Current assets			
Cash and cash equivalents		123.2	142.6
Trade receivables and loans	6	1,546.5	1,493.2
Lease receivables	7	53.4	-
Inventories		1,061.0	779.3
Assets held for sale		11.4	11.4
Other financial assets		0.4	0.4
Total current assets		**2,795.9**	**2,426.9**
Non-current assets			
Trade receivables and loans	6	29.5	16.1
Lease receivables	7	234.7	-
Equity-accounted investments		78.4	87.7
Net deferred tax assets		121.1	116.6
Property, plant and equipment		204.9	225.8
Right-of-use assets	7	517.2	-
Intangible assets and goodwill		586.4	793.5
Total non-current assets		**1,772.2**	**1,239.7**
TOTAL ASSETS		**4,568.1**	**3,666.6**
LIABILITIES			
Current liabilities			
Trade and other payables		2,228.2	1,967.7
Interest bearing borrowings		-	1.9
Lease liabilities	7	170.3	-
Provisions		105.7	123.9
Income tax payable		3.1	13.6
Other financial liabilities		7.9	6.7
Total current liabilities		**2,515.2**	**2,113.8**
Non-current liabilities			
Interest bearing borrowings		218.5	183.6
Lease liabilities	7	734.2	-
Provisions		69.4	115.9
Other financial liabilities		2.0	3.2
Total non-current liabilities		**1,024.1**	**302.7**
TOTAL LIABILITIES		**3,539.3**	**2,416.5**
NET ASSETS		**1,028.8**	**1,250.1**
EQUITY			
Contributed equity		559.2	559.2
Retained earnings		465.3	682.1
Other reserves		(4.9)	(0.8)
Parent interest		1,019.6	1,240.5
Non-controlling interests		9.2	9.6
TOTAL EQUITY		**1,028.8**	**1,250.1**

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

The financial position as at FY19 was not restated upon the initial adoption of AASB 16 Leases in 1H20. Refer Appendix B for a further description of the impact of AASB 16.

Statement of changes in equity

For the half year ended 31 October 2019

	Contributed equity $m	Retained earnings $m	Other reserves $m	Owners of the parent $m	Non-controlling interests $m	Total equity $m
At 30 April 2019, as previously reported	**559.2**	**682.1**	**(0.8)**	**1,240.5**	**9.6**	**1,250.1**
Transition adjustment arising from adoption of AASB 16 *Leases*	-	(1.6)	-	(1.6)	-	(1.6)
At 1 May 2019, post transition	**559.2**	**680.5**	**(0.8)**	**1,238.9**	**9.6**	**1,248.5**
Total comprehensive loss, net of tax	-	(151.6)	(0.9)	(152.5)	0.5	(152.0)
Transactions with owners						
Dividends paid (Note 5)	-	(63.6)	-	(63.6)	(0.9)	(64.5)
Shares issued to employees (Note 4)	-	-	(4.9)	(4.9)	-	(4.9)
Share-based payments expense	-	-	1.7	1.7	-	1.7
At 31 October 2019	**559.2**	**465.3**	**(4.9)**	**1,019.6**	**9.2**	**1,028.8**
At 1 May 2018	**600.0**	**726.2**	**(0.7)**	**1,325.5**	**8.7**	**1,334.2**
Total comprehensive income, net of tax	-	95.8	(0.6)	95.2	0.8	96.0
Transactions with owners						
Share buyback and related costs (Note 4)	(40.8)	(109.5)	-	(150.3)	-	(150.3)
Dividends paid (Note 5)	-	(68.3)	-	(68.3)	(0.1)	(68.4)
Share-based payments expense	-	-	1.3	1.3	-	1.3
At 31 October 2018	**559.2**	**644.2**	**-**	**1,203.4**	**9.4**	**1,212.8**

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

The Statement of Changes in Equity for FY19 was not restated upon the initial adoption of AASB 16 Leases. Refer Appendix B for a further description of the impact of AASB 16.

Statement of cash flows

For the half year ended 31 October 2019

	Notes	1H20 $m	1H19 $m
Cash flows from operating activities			
Receipts from customers		7,814.9	7,747.4
Payments to suppliers and employees		(7,658.0)	(7,565.3)
Financing component of lease payments, net	7	(14.5)	-
Other interest and dividends, net		(9.1)	(11.1)
Income tax paid, net of tax refunds		(44.5)	(50.7)
Net cash generated by operating activities		**88.8**	**120.3**
Cash flows from investing activities			
Proceeds from sale of businesses and assets		4.9	0.3
Payments for acquisition of business assets		(30.5)	(24.7)
Payments on acquisition of businesses, net of cash acquired		(23.2)	(3.4)
Receipts from subleases, excluding the financing component	7	21.4	-
Loans repaid by/(provided to) other entities, net		(2.4)	1.0
Net cash used in investing activities		**(29.8)**	**(26.8)**
Cash flows from financing activities			
Proceeds from borrowings, net		40.1	76.4
Payment for off-market buyback of shares, net of costs		-	(150.3)
Payments for on-market purchase of shares		(3.1)	-
Payments for lease liabilities, excluding the financing component	7	(50.9)	-
Payment of dividends to owners of the parent		(63.6)	(68.3)
Payment of dividends to non-controlling interests		(0.9)	(0.1)
Net cash used in financing activities		**(78.4)**	**(142.3)**
Net decrease in cash and cash equivalents		(19.4)	(48.8)
Add opening cash and cash equivalents		142.6	161.2
Cash and cash equivalents at the end of the period		**123.2**	**112.4**

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

The Statement of Cash Flows for 1H19 was not restated for AASB 16 Leases. Refer Appendix B for a further description of the impact of AASB 16.

Notes to the financial statements

For the half year ended 31 October 2019

1. Corporate information

The half year report of Metcash Limited (the 'Company') and its controlled entities (together the 'Group') for the half year ended 31 October 2019 was authorised for issue in accordance with a resolution of the Directors on 5 December 2019.

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 registered office of the Company is 1 Thomas Holt Drive, Macquarie Park, NSW 2113.

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

2. Segment and revenue 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	
	1H20 $m	**1H19 $m**	**1H20 $m**	**1H19 * $m**
Food	3,908.9	3,860.1	88.4	93.0
Liquor	1,781.0	1,749.9	30.7	29.1
Hardware	599.9	579.2	38.9	37.8
Segment results	**6,289.8**	**6,189.2**	**158.0**	**159.9**
Corporate			(2.3)	(1.8)
Group underlying EBIT			**155.7**	**158.1**
Net finance costs			(27.0)	(14.5)
Significant items (Note 3)			(249.3)	(6.5)
(Loss)/profit before tax			**(120.6)**	**137.1**

* The financial results for 1H19 were not restated upon the initial adoption of AASB 16 *Leases* in 1H20. The 1H20 segment profit before tax is therefore not comparable to 1H19. Comparable financial information is presented on a pre AASB 16 basis in the analysts' presentation to bridge the financial statements between both standards. Whilst the 1H20 financial report is subject to a review by the Group's auditors, pre AASB 16 financial information for 1H20 is unaudited and is not reviewed by the auditors. Refer Appendix B for a further description of the impact of AASB 16.

Notes to the financial statements (continued)

For the half year ended 31 October 2019

3. Expenses

	1H20 $m	1H19 $m
(i) Other income		
Lease income – rent	8.8	35.5
Lease income – outgoings recoveries	15.2	16.2
Share of profit of equity-accounted investments	3.4	2.0
Net gain/(loss) from disposal of property, plant and equipment	(0.1)	0.1
	27.3	**53.8**
(ii) Employee benefit expenses		
Salaries and wages	276.2	275.1
Superannuation expense	21.0	20.5
Share-based payments expense	1.7	1.3
Other employee benefit expenses	21.4	22.4
	320.3	**319.3**
(iii) Depreciation and amortisation		
Depreciation of right-of-use assets	51.9	-
Depreciation of property, plant and equipment	13.5	14.5
Amortisation of software	11.2	11.3
Amortisation of other intangible assets	2.4	2.3
	79.0	**28.1**
(iv) Lease expenses		
Property rent	6.2	82.7
Property outgoings	35.9	36.2
Equipment and other leases	5.3	10.5
	47.4	**129.4**
(v) Provision for impairment, net of reversals		
Trade receivables and loans	7.3	4.7
Inventories	8.3	8.2
Equity-accounted investments	-	1.0
Lease receivables	(0.2)	-
Onerous contracts provisions	(5.7)	(16.6)
Property, plant and equipment	(0.8)	0.5
	8.9	**(2.2)**
(vi) Finance costs, net		
Interest expense	7.9	8.6
Transaction fees in relation to customer charge cards (Note 6)	3.0	3.8
Deferred borrowing costs	0.6	0.4
Financing component of lease payments, net	14.5	-
Finance costs from discounting of provisions	2.6	3.4
Interest income	(1.6)	(1.7)
	27.0	**14.5**
(vii) Significant items		
Impairment of goodwill (Note 4(i))	225.6	-
Impairment of property, plant and equipment (Note 4(i))	16.8	-
Mfuture implementation costs (Note 4(ii))	6.9	-
Working Smarter restructuring costs	-	6.5
Total significant items before tax	**249.3**	**6.5**
Income tax benefit attributable to significant items	(7.1)	(2.0)
Total significant items after tax	**242.2**	**4.5**

4. Significant events and transactions

The following items provide an explanation of significant events and transactions since the end of the last annual reporting period, as required under AASB 134 *Interim Financial Reporting*.

(i) Loss of 7-Eleven contract and impairment of goodwill and other assets

On 22 November 2019, Metcash advised the market that the 7-Eleven group of convenience stores (7-11) had communicated their intention not to renew the current supply agreement with Metcash following its conclusion on 12 August 2020.

Management has recalculated the recoverable amount of the Food cash-generating unit (CGU) at 1H20 following the loss of this contract. Management's assessment also covered other forecast changes in the Food business, including a reinvestment in working capital. In accordance with AASB 136 *Impairment of Assets*, the calculation of recoverable amount did not factor in cost saving strategies that management intends to adopt to mitigate the earnings impact of the contract loss.

As the headroom within the Food CGU was already limited due to a previous impairment expense recognised in FY18, these changes resulted in an impairment of $242.4 million, including $225.6 million to the CGU's goodwill. This expense is presented separately within 'significant items' in the income statement.

The Food CGU's last annual impairment test was performed in April 2019. The key assumptions used to determine the recoverable amount for the Food CGU were disclosed in the Group's FY19 financial statements.

As a result of the impairment, the recoverable amount of the Food CGU is now in line with the carrying value of this CGU at $465.8 million. Any future events that result in adverse changes to forward assumptions would accordingly result in further impairment. The following sensitivity changes to the Food CGU are deemed to be reasonably possible and would increase the impairment charge, assuming all other assumptions are held constant:

- A 10% reduction in forecasted EBIT used in the CGU assessment across all projection years, including the terminal year, would cause an additional impairment charge of $58.3 million;

- An increase of 50 basis points in the post-tax discount rate to 11.8% would cause an additional impairment charge of $25.4 million; or

- A decrease of 50 basis points in the terminal growth rate to 1.0% would cause an additional impairment charge of $17.8 million.

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

(ii) *Mfuture* implementation costs, including SADC

The five-year *Mfuture* program commenced in FY20 and includes initiatives aimed at growth and maximising the effectiveness of the Group's cost of doing business ("CODB"). In 1H20, the Group incurred $6.9 million of implementation costs which are incremental and only include costs specifically related to the program and are non-routine in nature, such as redundancies and restructuring costs. The program also includes costs associated with the move to a new distribution centre in South Australia (SADC), which is expected to occur in the third quarter of 2020.

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

(iii) FY17-FY19 LTI Plan

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

5. Dividends

	1H20 $m	FY19 $m
Dividend paid on ordinary shares during the period		
Final fully franked dividend for FY19: 7.0c (FY18: 7.0c)	63.6	68.3
Dividend determined (not recognised as a liability as at 31 October 2019)		
Interim fully franked dividend for FY20: 6.0c (FY19: 6.5c)	54.6	59.1

On 5 December 2019, the Board determined to pay a fully franked FY20 interim dividend of 6.0 cents per share, sourced from the profit reserve established by Metcash Limited (Parent Company), with a record date of 18 December 2019 and payable in cash on 23 January 2020. The Dividend Reinvestment Plan remains suspended with effect from 26 June 2017.

6. Trade receivables and loans

	1H20 $m	FY19 $m
Current		
Trade receivables	1,232.9	1,169.5
Allowance for impairment loss	(55.1)	(63.4)
Trade receivables	**1,177.8**	**1,106.1**
Trade receivables – customer charge cards agreement	196.0	223.7
Other receivables and prepayments	152.4	142.7
Trade and other receivables	**1,526.2**	**1,472.5**
Customer loans	26.5	26.3
Allowance for impairment loss	(6.2)	(5.6)
Customer loans	**20.3**	**20.7**
Total trade receivables and loans – current	**1,546.5**	**1,493.2**
Non-current		
Customer loans	29.7	16.1
Allowance for impairment loss	(0.2)	-
Total trade receivables and loans - non-current	**29.5**	**16.1**

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 receivables and a matching current liability of $196.0 million (FY19: $223.7 million) is included within trade and other payables, with no impact to the Group's net assets.

Notes to the financial statements (continued)

For the half year ended 31 October 2019

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

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

	Right-of-use assets				
	Leasehold properties $m	**Motor vehicles and other equipment $m**	**Total $m**	**Lease receivables $m**	**Lease liabilities $m**
AASB 16 transition adjustments	575.1	26.4	601.5	335.3	(939.1)
Reclassifications of pre-existing balances	(54.8)	7.8	(47.0)	(19.3)	(7.4)
As at 1 May 2019, post-transition	**520.3**	**34.2**	**554.5**	**316.0**	**(946.5)**
New and modified leases	13.2	6.7	19.9	(0.8)	(19.1)
Leases exited	(5.9)	(0.1)	(6.0)	(5.9)	12.6
Lease remeasurements	0.7	-	0.7	-	(2.4)
Impairment reversals, net	-	-	-	0.2	-
Depreciation	(45.0)	(6.9)	(51.9)	-	-
Cash (receipts)/payments	-	-	-	(28.7)	72.7
Financing component of lease (payments)/receipts	-	-	-	7.3	(21.8)
As at 31 October 2019	**483.3**	**33.9**	**517.2**	**288.1**	**(904.5)**

The cash receipts and payments are presented in the following lines of the statement of cash flows:

	1H20 $m	**1H19 $m**
Receipts from subleases, excluding the financing component	21.4	-
Payment for lease liabilities, excluding the financing component	(50.9)	-
Financing component of lease payments, net	(14.5)	-
Net cash payments	**(44.0)**	**-**

In addition, the Group recognised rent expense of $6.2 million from short-term leases and variable lease payments during 1H20.

The adoption of AASB 16 had no impact on the Group's banking covenants, which are based on financials excluding AASB 16.

Refer Appendix B for a further description of the impact of AASB 16.

8. Financial risk management - put options

The Group has a put option with Ritchies Stores Pty Ltd (Ritchies), which is recognised at a fair value of nil.

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

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

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

8. Financial risk management - put options (continued)

As the hurdle was not achieved for the financial year ended June 2019, it is not possible to determine the specific consideration that would have been payable under the put option agreement at that time. However, assuming the financial hurdle had been achieved, and based on Ritchies reported financial results for the year ended June 2019, Metcash estimates that the consideration payable in respect of the Ritchies 2019 financial year would have been between $140 million and $155 million.

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

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

Refer note 14 of the Group's FY19 financial statements for further information on put options.

9. Contingent assets and liabilities

	1H20 $m	FY19 $m
Bank guarantees to third parties in respect of property lease obligations	16.3	16.8
Bank guarantees in respect of workers compensation	2.7	2.7

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

Had the guarantee been exercised at 31 October 2019, the amount payable would have been $40.1 million (FY19: $43.6 million). The fair value of the financial guarantee contract at the reporting date was $1.5 million (FY19: $1.8 million) and is recognised as a financial liability.

Put options
Refer note 8 for details of put options outstanding at balance sheet date relating to equity-accounted investments.

10. Subsequent events

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

Appendix A – Summary of significant accounting policies

1. BASIS OF PREPARATION

The half year financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investment activities of the Group as the annual financial report.

The half year financial report should be read in conjunction with the annual financial report of Metcash Limited for the year ended 30 April 2019 ("FY19"). It is also recommended that the half year report be considered together with any public announcements made by Metcash Limited during the half year ended 31 October 2019.

The half year financial report has been prepared in accordance with the requirements of the *Corporations Act 2001*, AASB 134 *Interim Financial Reporting* and other mandatory professional reporting requirements.

The report presents the results of the current period, which comprised the 26 week period that commenced on 29 April 2019 and ended on 27 October 2019. The prior period results comprise the 26 week period that commenced on 30 April 2018 and ended on 28 October 2018.

2. CHANGES IN ACCOUNTING POLICY

The accounting policies adopted in the preparation of the half year financial report are consistent with those applied in the annual financial report, except for the adoption of new standards effective as of 1 May 2019.

During the current period, the Group initially applied AASB 16 *Leases*. The nature and effect of adopting this standard is outlined in Appendix B. Several other amendments and interpretations apply for the first time in 1H20, but do not have an impact on the half year financial report of the Group. These are as follows:

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

A number of new accounting standards (including amendments and interpretations) have been issued but were not effective in FY20. The Group has not elected to early adopt any of these new accounting standards in these financial statements. Certain amendments were made to the definition of materiality, which were applicable to AASB 101 *Presentation of Financial Statements* and AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* and consequential amendments to other AASBs, which: i) use a consistent definition of materiality throughout AASBs and the Conceptual Framework for Financial Reporting; ii) clarify when information is material; and iii) incorporate some of the guidance in AASB 101 about immaterial information. These amendments are in issue but are applicable to the Group in future financial periods.

Other pronouncements are not expected to have a material impact on the Group's results or financial position.

Appendix B – Financial reporting changes from the initial application of AASB 16 *Leases*

On 1 May 2019, the Group initially applied AASB 16 *Leases* using the modified retrospective transition option. Accordingly, the comparative information in this half year financial report has not been restated. The Group has provided supplementary information in the analysts' presentation to bridge the financial statements between both standards. Whilst the 1H20 financial report is subject to a review by the Group's auditors, pre AASB 16 financial information for 1H20 is unaudited and is not reviewed by the auditors.

a) Types of leases held by the Group

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

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

For back-to-back leases, the adoption of AASB 16 resulted in the recognition of an additional financial asset and lease liability, representing the present value of future cash flows on the sublease and the head lease, respectively. The value of the financial asset and the lease liability is broadly equivalent.

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

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

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

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

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

Notes to the financial statements (continued)

For the half year ended 31 October 2019

Appendix B – Financial reporting changes from the initial application of AASB 16 *Leases*

c) Summarised balance sheet on transition date

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

	30 April 2019 as reported $m	AASB 16 adjustments $m	1 May 2019 post transition $m
ASSETS			
Trade receivables and loans	1,493.2	-	1,493.2
Lease receivables	-	56.2	56.2
Other current assets	933.7	-	933.7
Current assets	**2,426.9**	**56.2**	**2,483.1**
Lease receivables	-	259.8	259.8
Net deferred tax assets	116.6	0.7	117.3
Property, plant and equipment	225.8	(7.8)	218.0
Right-of-use assets	-	554.5	554.5
Other non-current assets	897.3	-	897.3
Non-current assets	**1,239.7**	**807.2**	**2,046.9**
TOTAL ASSETS	**3,666.6**	**863.4**	**4,530.0**
Trade and other payables	1,967.7	(32.7)	1,935.0
Interest bearing borrowings	1.9	(1.9)	-
Provisions	123.9	(5.9)	118.0
Lease liabilities	-	152.6	152.6
Other current liabilities	20.3	-	20.3
Total current liabilities	**2,113.8**	**112.1**	**2,225.9**
Interest bearing borrowings	183.6	(5.5)	178.1
Provisions	115.9	(35.5)	80.4
Lease liabilities	-	793.9	793.9
Other liabilities	3.2	-	3.2
Total non-current liabilities	**302.7**	**752.9**	**1,055.6**
TOTAL LIABILITIES	**2,416.5**	**865.0**	**3,2821.5**
NET ASSETS	**1,250.1**	**(1.6)**	**1,248.5**
EQUITY			
Contributed and other equity	559.2	-	559.2
Retained earnings	682.1	(1.6)	680.5
Other reserves	(0.8)	-	(0.8)
Parent interest	1,240.5	(1.6)	1,238.9
Non-controlling interests	9.6	-	9.6
TOTAL EQUITY	**1,250.1**	**(1.6)**	**1,248.5**

Appendix B – Financial reporting changes from the initial application of AASB 16 *Leases*

d) Summary of revised significant accounting policies

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*.

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.

Significant judgement in determining the 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.

Notes to the financial statements (continued)

For the half year ended 31 October 2019

Appendix C – Equity-accounted investments

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

Investee	Principal activities	Reporting date	1H20 %	FY19 %
Associates				
Ritchies Stores Pty Ltd	Grocery retailing	30 June	26.0	26.0
Dramet Holdings Pty Ltd	Grocery retailing	30 June	26.0	26.0
Metcash Export Services Pty Ltd	Grocery retailing	30 April	15.0	15.0
Joint ventures				
Adcome Pty Ltd	Grocery retailing	30 April	45.0	45.0
Lecome Pty Ltd	Grocery retailing	30 April	-	50.0
BMS Retail Group Holdings Pty Ltd	Grocery retailing	30 June	49.0	49.0
Progressive Trading Pty Ltd	Grocery retailing	30 April	-	58.8
Waltock Pty Limited	Hardware retailing	30 June	49.0	49.0
G Gay Hardware Pty Ltd (a)	Hardware retailing	30 June	-	49.0
LA United Pty Ltd (c)	Liquor wholesaling	30 June	75.3	75.3
Liquor Alliance Pty Ltd (b)	Liquor wholesaling	30 June	66.7	66.7

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

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

Directors’ declaration

For the half year ended 31 October 2019

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

a. The financial statements and notes of the consolidated entity:
   i. give a true and fair view of its financial position as at 31 October 2019 and of its performance for the half year ended on that date; and
   ii. comply with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*; and

b. There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

On behalf of the Board

Jeff Adams
Director
Sydney, 5 December 2019

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Auditor's Independence Declaration to the Directors of Metcash Limited

As lead auditor for the review of the financial report Metcash Limited for the half-year ended 31 October 2019, 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 review*;* and

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

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

Ernst & Young

Christopher George
Partner, 5 December 2019

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Independent Auditor's Review Report to the Members of Metcash Limited

Report on the Half-Year Financial Report

Conclusion

We have reviewed the accompanying half-year financial report of Metcash Limited (the Company) and its subsidiaries (collectively the Group), which comprises the statement of financial position as at 31 October 2019, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the half-year financial report of the Group is not 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 31 October 2019 and of its consolidated financial performance for the half-year ended on that date; and

b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Directors' Responsibility for the Half-Year Financial Report

The directors of the Company are responsible for the preparation of the half-year 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 half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, anything has come to our attention that causes us to believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's consolidated financial position as at 31 October 2019 and its consolidated financial performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

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Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

Ernst & Young

Christopher George
Partner
Sydney
5 December 2019