



Metcash Limited

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

28 November 2016

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

Dear Sir/Madam

METCASH LIMITED – 2017 HALF YEAR FINANCIAL REPORT

Please find attached the following:

- a) Announcement – HY2017 Results
- b) Appendix 4D and Half Year Financial Report (including the Directors' Report and Independent Review Report) of Metcash Limited for the financial half year ended 31 October 2016.

Yours faithfully

A handwritten signature in black ink that reads "Julie Hutton".

Julie Hutton
Company Secretary



Metcash Limited

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1 Thomas Holt Drive
Macquarie Park
NSW 2113 Australia

28 November 2016

ASX Announcement

Metcash Limited 2017 half year results

- Group sales revenue up 0.3% to \$6.63bn¹ (1H16: \$6.61bn)
- Group reported profit after tax was \$74.9m (1H16: \$122.0m²)
- Group underlying profit after tax declined 4.7% to \$82.8m³ (1H16: \$86.9m)
- Group EBIT declined 4.2% to \$128.1m (1H16: \$133.7m)
- Liquor and Hardware – continued growth and positive outlook
- Home Timber & Hardware (“HTH”) acquisition – Metcash now has #2 market position
- Supermarkets – further increase in intensity of competition. Strategic initiatives and Working Smarter program helping to offset adverse impact of increased competition
- Working Smarter program on track
- Strong balance sheet – net debt reduced to \$197.6m (FY16: \$275.5m)
- No interim dividend for FY17, as guided

Group Overview

Metcash Limited (“the Group” or “Metcash”) today released its financial results for the half year ended 31 October 2016. The Group generated sales revenue of \$6.63bn, up 0.3% against the prior corresponding period.

Group EBIT for the period declined 4.2% to \$128.1m (1H16: \$133.7m). Continued earnings growth in the Liquor and Hardware pillars was more than offset by lower earnings in Food & Grocery. While there was continued positive momentum in the Food & Grocery pillar from strategic initiatives, and reduced operating costs from the Working Smarter program, they were insufficient to offset the impact of an intense trading period as well as weaker earnings in the Convenience business.

Underlying profit after tax declined 4.7% to \$82.8m (1H16: \$86.9m) primarily due to the decrease in Group EBIT. Reported profit after tax was \$74.9m (1H16: \$122.0m) and includes \$4.5m (post tax) of HTH acquisition costs and \$3.4m (post tax) of Working Smarter implementation costs. The prior year comparative includes \$35.1m (post tax) relating to discontinued operations.

¹ Group sales in 1H17 includes 3 weeks (\$51.5m) of HTH sales relating to the post acquisition period

² 1H16 Group reported profit after tax included \$35.1m profit after tax from the sale of the Automotive business (including profit up to date of sale)

³ Underlying profit after tax excludes HTH transaction costs of \$4.5m (post tax) and Working Smarter implementation costs of \$3.4m (post tax). In 1H16 underlying profit after tax excludes the profit in relation to the Automotive business which was disclosed within discontinued operations

The Group had strong operating cash flows in the half of \$130.6m (1H16: \$3.1m), and continued to sell non-core assets which generated a further \$27.2m in cash.

The positive cash flows in the half together with the \$92.8m of equity raised to fund the HTH acquisition, resulted in net debt reducing to \$197.6m (FY16: \$275.5m).

The acquisition of HTH was completed on 2 October 2016, creating a ~\$2bn hardware business servicing a retail network of ~750 bannered stores and a further ~500 unbannered stores. The Group's Hardware pillar is well positioned as the second largest market participant in the sector. The integration of HTH is progressing well and the business is expected to be fully integrated by the end of FY18.

Group CEO, Ian Morrice, said; "We continue to see positive momentum in our Liquor and Hardware pillars. Our Group results were however negatively impacted by an intense trading period in the food & grocery sector, as well as a slow-down in the growth of consumer spending. Our focus remains on supporting Independent Retailers to ensure they are well positioned as 'The Best Store in Town', and while both our strategic initiatives and Working Smarter cost savings program are progressing well and delivering returns, they were insufficient to offset the impact of increased competition in this half year.

"Despite difficult market conditions in the Supermarket sector, Independent Retailers are continuing to invest in growing their businesses, including new stores and refurbishments, and we remain focused on supporting this growth.

"The acquisition of HTH broadens our footprint in the hardware sector and, along with smaller acquisitions in the Liquor business, have diversified the Group's earnings base.

"The Group's strong underlying cash flows have further strengthened our financial position. Metcash is well placed to invest in growth opportunities, as well as in further operational cost and efficiency improvements," Mr Morrice said.

Review of Trading Results

Food & Grocery

Total Food and Grocery sales declined 1.2% to \$4.49bn (1H16: \$4.54bn).

Supermarkets sales decreased 1.0% to \$3.73bn and there was an increased weighting to tobacco sales in the half. Wholesale sales (excluding tobacco) declined 4.0%, with the uplift in sales from strategic initiatives being more than offset by the sale of stores, store closures, deflation and increased competitive action including the expansion of competitor footprint in South Australia and Western Australia.

IGA stores like for like ("LfL") retail sales increased 0.3% representing the fifth consecutive reporting period of sales growth. This demonstrates the continued improvement in the underlying health of our retail network.

Convenience sales declined 2.0% to \$758.5m (1H16: \$774.0m). Continued sales growth in C-Store Distribution ("CSD") was more than offset by a decline in Campbells reseller volumes.

Food & Grocery EBIT declined 8.1% to \$84.5m (1H16: \$91.9m). Supermarkets earnings were \$2.0m lower than 1H16 reflecting the impact of tough trading conditions. This decline was partly sheltered by Working Smarter savings and sales growth from strategic initiatives.

The Convenience business reported an operating loss of \$4.3m in 1H17 (1H16: \$1.1m profit). Improved earnings from CSD was more than offset by a further decline in Campbells earnings. Convenience earnings are expected to improve in 2H17 following completion of key contract negotiations and significant cost reductions.

Liquor

Total sales increased 1.6% to \$1.56bn (1H16: \$1.54bn) due to the strong performance of the IBA network and continued conversion of customers to our banner group. Sales through the IBA bannered network increased 6.1%, and 2.5% on a LfL basis.

EBIT increased 4.6% to \$27.1m (1H16: \$25.9m) reflecting the stronger IBA bannered network sales performance and savings from the Working Smarter program.

Hardware

Hardware sales increased 9.6% to \$581.6m (1H16: \$530.7m) and includes \$51.5m of HTH sales (3 weeks trading post acquisition). Mitre 10 continued to perform well, delivering sales in line with the prior year corresponding period despite 1H17 being impacted by competitor liquidation sales, unseasonal adverse weather in the second quarter and the cycling of closed stores. Mitre 10 wholesale LfL sales were up 1.7% (1H16: 1.3%) due to a solid performance from our trade business.

EBIT increased 7.8% to \$12.5m (1H16: \$11.6m) primarily due to the focus on cost efficiencies. There was no material EBIT contribution from HTH recorded for the 3 week post acquisition trading period.

Financial Position

Group net debt reduced by \$77.9m to \$197.6m (FY16: \$275.5m) and the gearing ratio reduced to 11.4% (FY16: 16.8%).

Solid cash generation from the pillars, including tight working capital management, delivered an operating cash flow for the half of \$130.6m (1H16: \$3.1m). The Group had net investing outflows of \$141.6m (1H16: \$237.0m inflow), including payments related to the HTH acquisition and capital expenditure, offset by inflows of \$32.3m from capital recycling and customer loan repayments. In addition, the Group raised \$92.8m of net equity to partially fund the HTH acquisition.

Net finance cost for the half was \$12.9m reflecting lower debt levels (1H16: \$12.8m). Net finance cost in 1H16 included a \$9.6m one-off gain from the restructure of finance facilities.

The Group's strong financial position ensures Metcash is well placed to continue to invest in growth and performance improvement initiatives across its three pillars.

Outlook

The FY17 full year includes a 53rd trading week, which comprises four business trading days. We expect earnings contribution in 2H17 from the Home Timber & Hardware acquisition, as well as continued positive momentum from Liquor.

In the Food & Grocery business, despite significant headwinds, we expect 2H17 earnings to be greater than 2H16. The second half of FY17 is expected to benefit from an additional trading week, Working Smarter cost savings, as well as the repositioning of the Convenience business which is expected to generate a positive EBIT in 2H17.

In line with previous guidance, no FY17 interim dividend has been declared. It is expected that dividend payments will recommence in FY18.

For further information:

Cait Tynan
Head of Corporate Affairs
Metcash Limited
Ph: +61 (0)2 9741 3415
Mob: +61 (0) 427 859 053

Merrin Hodge
Investor Relations Manager
Metcash Limited
Ph: +61 (0)2 9647 0866
Mob: +61 (0) 429 235 104

Metcash Group

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

Appendix 4D for the half year ended 31 October 2016 (1H17)

Results for announcement to the market

	1H17 \$m	1H16 \$m	Variance \$m	Variance %
Sales revenue	6,629.0	6,606.0	23.0	0.3
Earnings before interest, tax, depreciation and amortisation (EBITDA)	159.7	165.0	(5.3)	(3.2)
Depreciation and amortisation	(31.6)	(31.3)	(0.3)	(1.0)
Earnings before interest and tax (EBIT)	128.1	133.7	(5.6)	(4.2)
Net finance costs	(12.9)	(12.8)	(0.1)	(0.8)
Underlying profit before tax	115.2	120.9	(5.7)	(4.7)
Tax expense on underlying profit	(31.7)	(33.5)	1.8	5.4
Non-controlling interests	(0.7)	(0.5)	(0.2)	(40.0)
Underlying profit after tax (i)	82.8	86.9	(4.1)	(4.7)
Acquisition costs	(6.4)	-	(6.4)	-
Working Smarter restructuring costs	(4.8)	-	(4.8)	-
Significant items expense	(11.2)	-	(11.2)	-
Tax benefit on significant items	3.3	-	3.3	-
Net profit for the period from continuing operations attributable to members	74.9	86.9	(12.0)	(13.8)
Net profit after tax for the period from discontinued operations	-	35.1	(35.1)	(100.0)
Net profit for the period attributable to members	74.9	122.0	(47.1)	(38.6)
Underlying earnings per share (cents) (ii)	8.8	9.4	(0.6)	(6.4)
Reported profit per share (cents)	8.0	13.1	(5.1)	(38.9)

- (i) Underlying profit after tax represents reported profit after tax from continuing operations attributable to equity holders of the parent, excluding significant items after tax.
- (ii) Underlying earnings per share (EPS) is calculated by dividing underlying profit after tax by the weighted average shares outstanding during the period.

Explanatory note on results

The Group generated sales of \$6.6 billion, up 0.3% against the prior corresponding period.

Group EBIT for the half year declined 4.2% to \$128.1 million (1H16: \$133.7 million). Continued earnings growth in the Liquor and Hardware pillars was more than offset by lower earnings in Food & Grocery. While there was continued positive momentum in the Food & Grocery Pillar from strategic initiatives, and reduced operating costs from the 'Working Smarter' program, they were insufficient to offset the impact of an increase in the intensity of competition and weaker earnings in the Convenience business.

Underlying profit after tax declined 4.7% to \$82.8 million (1H16: \$86.9 million) primarily due to the decrease in Group EBIT. Reported profit after tax was \$74.9 million (1H16: \$122.0 million) and includes \$4.5 million (post tax) of HTH acquisition costs and \$3.4 million (post tax) of 'Working Smarter' implementation costs. The prior year comparative includes \$35.1 million relating to the trading results and disposal of the Automotive business which has been classified as discontinued operations.

This Appendix 4D should be read in conjunction with the Metcash Half Year Financial Report for 31 October 2016.

Appendix 4D (continued)

For the half year ended 31 October 2016

Dividends on ordinary shares

In line with the Board's previous announcement, no interim or final dividend was paid in relation to the year ended 30 April 2016 and no interim dividend was declared in relation to the current half year.

Other disclosures

Net tangible assets backing

At 31 October 2016, the net tangible assets was 42.4 cents per share (30 April 2016: 26.0 cents per share).

Entities where control has been gained or lost

On 2 October 2016, the Group acquired 100% of the shares of Danks Holdings Pty Limited (or 'HTH') for a total purchase consideration of \$163.2 million. HTH is an integrated hardware wholesaler and retailer, with strong retail brands including Home Timber & Hardware, Thrifty-Link, Hardings and Hudson Building Supplies. The acquisition created a ~\$2 billion hardware business servicing a retail network of ~750 bannered stores and a further ~500 unbannered stores.

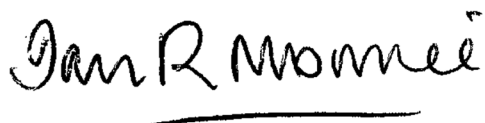
Please refer to note 4(a) of the half year report for further details. Other changes in control were not material to the Group.

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 28 November 2016.

Metcash Limited has a formally constituted audit committee.

On behalf of the Board



Ian Morrice
Director
Sydney, 28 November 2016

This Appendix 4D should be read in conjunction with the Metcash Half Year Financial Report for 31 October 2016.

Metcash Limited

ABN 32 112 073 480

Financial Report

For the half year ended 31 October 2016



Directors' report

For the half year ended 31 October 2016

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 2016 ('1H17').

Board information

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

Robert A Murray (Chairman)
Ian R Morrice (Chief Executive Officer)
Patrick N J Allaway
Fiona E Balfour
Michael R Butler (retired 31 August 2016)
Tonianne Dwyer
Neil D Hamilton (retired 31 August 2016)
Murray P Jordan
Helen E Nash

Review of results and operations

Consolidated net profit for the period after income tax attributable to shareholders of the Company was \$74.9 million (1H16: \$122.0 million).

Auditors independence

The auditor's independence declaration for the half year has been received and is included on page 15.

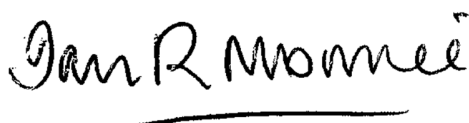
Subsequent events

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 (Rounding in Financial/Directors' Reports) Instrument 2016/191*.

Signed in accordance with a resolution of the Directors.



Ian Morrice
Director
Sydney, 28 November 2016

Statement of comprehensive income

For the half year ended 31 October 2016

	Notes	1H17 \$m	1H16 \$m
Sales revenue		6,629.0	6,606.0
Cost of sales		(6,104.2)	(6,056.3)
Gross profit		524.8	549.7
Other income	3	55.9	72.6
Distribution costs		(233.9)	(230.3)
Administrative costs		(222.0)	(250.8)
Share of profit of equity-accounted investments		5.3	4.3
Significant items	3	(11.2)	-
Finance costs	3	(14.9)	(24.6)
Profit from continuing operations before income tax		104.0	120.9
Income tax expense from continuing operations		(28.4)	(33.5)
Net profit for the period from continuing operations		75.6	87.4
Net profit after tax for the period from discontinued operations		-	35.1
Net profit for the period		75.6	122.5
Net profit for the period is attributable to:			
Equity holders of the parent		74.9	122.0
Non-controlling interests		0.7	0.5
		75.6	122.5
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Foreign currency translation adjustments		0.9	(0.4)
Cash flow hedge adjustment		(0.6)	2.1
Income tax (expense)/benefit		0.2	(0.7)
Other comprehensive income/(loss) for the period, net of tax		0.5	1.0
Total comprehensive income for the period		76.1	123.5
Total comprehensive income for the period is attributable to:			
Equity holders of the parent		75.4	123.0
Non-controlling interests		0.7	0.5
		76.1	123.5

Earnings per share attributable to the ordinary equity holders of the Company

From continuing operations for the period			
- basic earnings per share (cents)		8.0	9.4
- diluted earnings per share (cents)		7.9	9.4
From discontinued operations for the period			
- basic earnings per share (cents)		-	3.8
- diluted earnings per share (cents)		-	3.8
From net profit for the period			
- basic earnings per share (cents)		8.0	13.1
- diluted earnings per share (cents)		7.9	13.1

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

Statement of financial position

As at 31 October 2016

	Notes	October 2016 \$m	April 2016 \$m
ASSETS			
Current assets			
Cash and cash equivalents		46.2	26.4
Trade receivables and loans	6	1,158.2	981.4
Inventories		917.6	673.6
Assets held for sale		17.1	32.1
Derivative financial instruments		0.2	-
Prepayments and other assets		10.9	10.8
Total current assets		2,150.2	1,724.3
Non-current assets			
Derivative financial instruments		13.1	12.1
Trade receivables and loans	6	15.6	15.9
Equity-accounted investments		106.7	102.9
Property, plant and equipment		262.8	251.9
Net deferred tax assets		119.2	113.5
Intangible assets and goodwill		1,125.0	1,127.5
Total non-current assets		1,642.4	1,623.8
TOTAL ASSETS		3,792.6	3,348.1
LIABILITIES			
Current liabilities			
Trade and other payables		1,704.4	1,356.9
Interest bearing borrowings		43.7	15.7
Derivative financial instruments		1.6	1.8
Provisions		117.8	140.4
Income tax payable		5.6	15.8
Other financial liabilities		12.8	13.6
Total current liabilities		1,885.9	1,544.2
Non-current liabilities			
Interest bearing borrowings		213.8	299.4
Provisions		145.1	123.8
Derivative financial instruments		4.3	3.9
Other financial liabilities		5.1	7.7
Total non-current liabilities		368.3	434.8
TOTAL LIABILITIES		2,254.2	1,979.0
NET ASSETS		1,538.4	1,369.1
EQUITY			
Contributed and other equity	4(b)	1,719.3	1,626.0
Retained earnings/(accumulated losses)		(184.7)	(259.6)
Other reserves		(4.1)	(5.6)
Parent interest		1,530.5	1,360.8
Non-controlling interests		7.9	8.3
TOTAL EQUITY		1,538.4	1,369.1

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

Statement of changes in equity

For the half year ended 31 October 2016

	Contributed and other equity \$m	Retained earnings/ (accumulated losses) \$m	Other reserves \$m	Owners of the parent \$m	Non- controlling interests \$m	Total equity \$m
At 1 May 2016	1,626.0	(259.6)	(5.6)	1,360.8	8.3	1,369.1
Total comprehensive income, net of tax	-	74.9	0.5	75.4	0.7	76.1
Transactions with owners						
Proceeds from equity raising (Note 4(b))	93.3	-	-	93.3	-	93.3
Dividends paid (Note 5)	-	-	-	-	(1.1)	(1.1)
Share-based payments	-	-	1.0	1.0	-	1.0
At 31 October 2016	1,719.3	(184.7)	(4.1)	1,530.5	7.9	1,538.4
At 1 May 2015	1,626.0	(475.8)	(1.3)	1,148.9	7.7	1,156.6
Total comprehensive income, net of tax	-	122.0	1.0	123.0	0.5	123.5
Transactions with owners						
Dividends paid	-	-	-	-	(1.1)	(1.1)
Share-based payments	-	-	(3.8)	(3.8)	-	(3.8)
At 31 October 2015	1,626.0	(353.8)	(4.1)	1,268.1	7.1	1,275.2

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

Statement of cash flows

For the half year ended 31 October 2016

	Notes	1H17 \$m	1H16 \$m
Cash flows from operating activities			
Receipts from customers		7,242.1	7,180.2
Payments to suppliers and employees		(7,068.3)	(7,137.2)
Interest and dividends, net		(8.1)	(6.8)
Income tax paid, net of tax refunds		(35.1)	(33.1)
Net cash generated by operating activities		130.6	3.1
Cash flows from investing activities			
Proceeds from sale of businesses		1.6	239.7
Proceeds from sale of business assets		27.2	21.8
Payments for acquisition of business assets		(19.0)	(26.1)
Payment on acquisition of businesses and equity-accounted investments	4(a)	(154.9)	(9.6)
Proceeds from loans repaid by other entities		8.1	15.7
Loans to other entities		(4.6)	(4.5)
Net cash from/(used in) investing activities		(141.6)	237.0
Cash flows from financing activities			
Proceeds from equity raising, net of share issue costs	4(b)	92.8	-
Repayments of borrowings, net		(60.6)	(287.0)
Payment of dividends to non-controlling interests		(1.4)	(5.2)
Net cash from/(used in) financing activities		30.8	(292.2)
Net increase/(decrease) in cash and cash equivalents		19.8	(52.1)
Add opening cash and cash equivalents		26.4	83.3
Effect of exchange rate changes on cash		-	(0.4)
Cash and cash equivalents at the end of the period		46.2	30.8

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

Notes to the financial statements

For the half year ended 31 October 2016

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 2016 were authorised for issue in accordance with a resolution of the Directors on 28 November 2016.

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

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

2. Segment information

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

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

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

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

Sales between segments are based on similar terms and conditions to those in place with third party customers. Segment results exclude results from discontinued operations.

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

Segment results

	Segment revenue		Segment profit before tax	
	1H17 \$m	1H16 \$m	1H17 \$m	1H16 \$m
Food & Grocery	4,487.6	4,540.2	84.5	91.9
Liquor	1,559.8	1,535.1	27.1	25.9
Hardware	581.6	530.7	12.5	11.6
Segment results	6,629.0	6,606.0	124.1	129.4
Corporate			4.0	4.3
Group earnings before interest and tax ('EBIT')			128.1	133.7
Net finance costs			(12.9)	(12.8)
Significant items (Note 3)			(11.2)	-
Net profit before tax from continuing operations			104.0	120.9

Notes to the financial statements

For the half year ended 31 October 2016

3. Revenue and expenses

	1H17 \$m	1H16 \$m
(i) Other income		
Lease income – rent	37.5	43.4
Lease income – outgoings recoveries	11.5	13.2
Interest from other persons/corporations	2.0	2.2
Other interest income – credit value adjustments and finance facility restructure	-	9.6
Net gain from disposal of property, plant and equipment	4.9	4.2
	55.9	72.6
(ii) Operating lease expenses		
Property rent – stores	41.1	43.6
Property rent – warehouse and other properties	40.5	39.0
Property outgoings	18.4	19.7
Equipment and other leases	10.8	11.0
	110.8	113.3
(iii) Employee benefit expenses		
Salaries and wages	224.4	236.9
Defined contribution plan expense	18.9	20.4
Share-based payments	1.0	(3.8)
Other employee benefit expenses	19.7	21.4
	264.0	274.9
(iv) Depreciation and amortisation		
Depreciation of property, plant and equipment	18.6	19.4
Amortisation of software	8.0	7.7
Amortisation of other intangible assets	5.0	4.2
	31.6	31.3
(v) Provisions for impairment, net of reversals		
	16.4	19.1
(vi) Significant items		
Acquisition costs (Note 4(a))	6.4	-
Working Smarter restructuring costs (Note 4(c))	4.8	-
Total significant items expense before tax	11.2	-
Income tax benefit attributable to significant items	(3.3)	-
Total significant items expense after tax	7.9	-
(vii) Finance costs		
Interest expense	10.0	18.9
Deferred borrowing costs	0.9	0.6
Finance costs from discounting of provisions	4.0	5.1
	14.9	24.6

Notes to the financial statements

For the half year ended 31 October 2016

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*.

(a) Business combinations – Home Timber & Hardware ('HTH')

On 2 October 2016, the Group acquired 100% of the shares of Danks Holdings Pty Limited (or 'HTH') for a total purchase consideration of \$163.2 million. HTH is an integrated hardware wholesaler and retailer, with strong retail brands including Home Timber & Hardware, Thrifty-Link, Hardings and Hudson Building Supplies. The acquisition created a ~\$2 billion hardware business servicing a retail network of ~750 bannered stores and a further ~500 unbannered stores.

The purchase consideration of \$165.0 million was fully paid in cash and has been provisionally allocated as follows.

	Total \$m
Purchase consideration	
Cash consideration	165.0
Less: Cash and bank balances acquired	(14.8)
Net cash outflow on acquisition, before transaction costs	150.2
Plus: Estimated working capital adjustment	13.0
Total purchase consideration	163.2
Net assets acquired	
Trade receivables and loans	171.1
Inventories	125.6
Property, plant and equipment	26.1
Deferred tax assets	8.5
Trade payables and provisions	(168.1)
Net assets, at acquisition date fair value	163.2

The purchase consideration of \$163.2 million includes \$13.0 million payable to the vendor in relation to the working capital adjustment as defined in the purchase and sale agreement. The working capital adjustment reflects the change in the working capital position between the date of exchange and completion.

The purchase consideration has been allocated to tangible assets and no goodwill has been recognised in relation to the acquisition.

Given the proximity of the acquisition to the half year reporting date the working capital adjustment and the fair values ascribed to assets and liabilities, as shown in the above table, are provisional. HTH generated \$51.5 million of sales revenue post completion (2 October 2016). HTH did not contribute materially to earnings during the 3 week post acquisition trading period.

Transaction costs of \$6.4 million were incurred in relation to the acquisition, these are separately disclosed as a significant item in note 3 to the financial statements.

(b) Equity raising

During the period the Group raised \$93.3 million of equity (net of transaction costs) through the issue of 47.3 million shares. The equity raised was primarily used to fund the HTH acquisition.

Notes to the financial statements

For the half year ended 31 October 2016

4. Significant events and transactions (continued)

(c) Working Smarter restructuring costs

During the period the Group incurred \$4.8 million of restructuring costs in relation to implementing the Working Smarter program that are separately disclosed as a significant item in note 3 to the financial statements. These costs are not trading related and only include costs specifically related to the programme, such as redundancies, restructuring costs and advisor fees.

5. Dividends paid and declared on ordinary shares

In line with the Board's previous announcement, no interim or final dividend was paid in relation to the year ended 30 April 2016 and no interim dividend was declared in relation to the current half year.

6. Trade receivables and loans

	October 2016 \$m	April 2016 \$m
Current		
Trade receivables - securitised	737.5	732.6
Trade receivables - non-securitised	362.2	186.3
Allowance for impairment loss	(46.0)	(45.0)
	1,053.7	873.9
Marketing and other receivables	85.6	82.1
Trade and other receivables	1,139.3	956.0
Customer loans	23.1	33.1
Allowance for impairment loss	(4.2)	(7.7)
Customer loans	18.9	25.4
Total trade receivables and loans - current	1,158.2	981.4
Non-current		
Customer loans	28.3	21.8
Allowance for impairment loss	(13.4)	(6.8)
Customer loans	14.9	15.0
Other receivables	0.7	0.9
Total trade receivables and loans - non-current	15.6	15.9

Notes to the financial statements

For the half year ended 31 October 2016

7. Financial risk management - Put Options

The Group has granted three contingent put options, which are recognised at a fair value of nil. Two of these put options relate to the acquisition of retail supermarkets and another relates to the acquisition by Mitre 10 from co-investors of an additional ownership interest in an equity-accounted investment. The holders of these put options have the right to put these assets back to the Group under certain prescribed circumstances. The put option purchase prices are defined within the option deeds and are active until April 2022. The put option consideration is estimated to be \$17.0 million (2016: \$17.0 million).

In addition, the Group has granted put options to the remaining shareholders of Ritchies Stores Pty Ltd (Ritchies) over their 74% ownership interests in that business. The Group holds a 26% equity-accounted investment in Ritchies.

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

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

As the hurdle was not achieved in 2016, 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 2016, Metcash estimates that the consideration payable in respect of the Ritchies 2016 financial year would have been between \$90 million and \$130 million.

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

Please see note 16 of the Group's April 2016 financial statements for further information on put options.

8. Contingent assets and liabilities

	October 2016 \$m	April 2016 \$m
Bank guarantees to third parties in respect of property lease obligations	22.0	26.6
Bank guarantees in respect of Work Cover	10.6	11.3
Outstanding debts under the American Express charge card agreement	266.3	216.3

American Express charge card

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

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

9. Subsequent events

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.

Notes to the financial statements (continued)

For the half year ended 31 October 2016

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 2016. 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 2016.

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 25 April 2016 and ended on 23 October 2016. The prior period results comprise the 26 week period that commenced on 27 April 2015 and ended on 25 October 2015.

2. CHANGES IN ACCOUNTING POLICY

The accounting policies adopted in the preparation of the half year financial report are consistent with those adopted in the preparation of the annual financial report, except the following accounting standards, which are applicable to the Group for the first time during the current period.

AASB 1057 Application of Australian Accounting Standards

AASB 2014-3 Amendments to Australian Accounting Standards - Accounting for Acquisitions of Interests in Joint Operations

AASB 2014-4 Clarification of Acceptable Methods of Depreciation and Amortisation

AASB 2014-9 Amendments to Australian Accounting Standards - Equity Method in Separate Financial Statements

AASB 2015-1 Amendments to Australian Accounting Standards - Annual Improvements to Australian Accounting Standards 2012-2014 Cycle

AASB 2015-2 Amendments to Australian Accounting Standards - Disclosure Initiative: Amendments to AASB 101

AASB 2015-3 Amendments to Australian Accounting Standards arising from the Withdrawal of AASB 1031 Materiality

The adoption of these standards did not have a significant impact on the Group's financial results, financial position or disclosures. Accounting policies are applied consistently by each entity in the Group.

Notes to the financial statements (continued)

For the half year ended 31 October 2016

Appendix B – 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	October 2016 %	April 2016 %
Associates				
Abacus Independent Retail Property Trust	Retail property investment	30 June	25.0	25.0
Ritchies Stores Pty Ltd	Grocery retailing	30 June	26.0	26.0
BMS Retail Group Holdings Pty Ltd	Grocery retailing	30 June	25.1	25.1
Dramet Holdings Pty Ltd	Grocery retailing	30 June	26.0	26.0
Joint ventures				
Adcome Pty Ltd	Grocery retailing	30 April	45.0	45.0
Lecome Pty Ltd	Grocery retailing	30 April	50.0	50.0
Progressive Trading Pty Ltd	Grocery retailing	30 April	52.2	52.2
Metfood Pty Limited	Merchandise services	30 April	50.0	50.0
Waltock Pty Limited	Hardware retailing	30 June	49.0	49.0
Banner 10 Pty Ltd	Hardware retailing	30 June	49.0	49.0
G Gay Hardware Pty Ltd	Hardware retailing	30 June	49.0	49.0
Woody's Timber & Hardware Pty Ltd	Hardware retailing	30 June	46.0	46.0
LA United Pty Ltd (a)	Liquor wholesaling	30 June	63.0	44.5
Liquor Alliance Pty Ltd (a)	Liquor wholesaling	30 June	50.0	25.0

- (a) The Group has a direct ownership of 26.0% in LA United Pty Ltd, an indirect ownership of 37.0% (2016: 18.5%) 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.

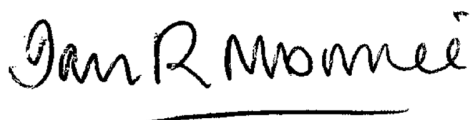
Directors' declaration

For the half year ended 31 October 2016

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 2016 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

A handwritten signature in black ink that reads "Ian R Morrice". The signature is written in a cursive style and is underlined with a single horizontal line.

Ian Morrice
Director
Sydney, 28 November 2016



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

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

Auditor's Independence Declaration to the Directors of Metcash Limited

As lead auditor for the review of Metcash Limited for the half-year ended 31 October 2016, I declare to the best of my knowledge and belief, there have been:

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

Renay Robinson
Partner
Sydney
28 November 2016

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

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

To the members of Metcash Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Metcash Limited, which comprises the statement of financial position as at 31 October 2016, 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 of the consolidated entity comprising the company and the entities it controlled at the half-year end or from time to time during the half-year.

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 controls as the directors determine are 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, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 October 2016 and its 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 Metcash Limited and the entities it controlled during the half-year ended 31 October 2016, 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.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is referred to in the Directors' Report.

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Ernst & Young
200 George Street
Sydney NSW 2000 Australia
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Tel: +61 2 9248 5555
Fax: +61 2 9248 5959
ey.com/au

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Metcash Limited is not in accordance with the *Corporations Act 2001*, including:

- a) giving a true and fair view of the consolidated entity's financial position as at 31 October 2016 and of its 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*.

Ernst & Young
Ernst & Young

R Robinson

Renay Robinson
Partner
Sydney
28 November 2016

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