METCASH LIMITED

Champion of the Independent Retailer – Coast to Coast

Annual Report 2006

OUR MISSION: TO BE THE MARKETING AND DISTRIBUTION LEADER IN FOOD AND OTHER FAST-MOVING CONSUMER GOODS

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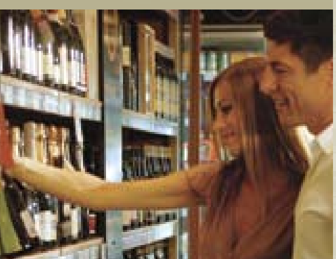
Foodlink Distribution cold storage, WA.



ABOUT US

Metcash Limited is a leading marketing and distribution company operating in the grocery and liquor wholesale distribution industries through its three business pillars:

> IGA Distribution (Independent Grocers of Australia)

> Australian Liquor Marketers

> Campbells Wholesale

OUR CORE VALUES

> Championing the customer

> Our stakeholders are entitled to added value

> Responsibility and personal accountability

> Empowering our people and supporting our communities

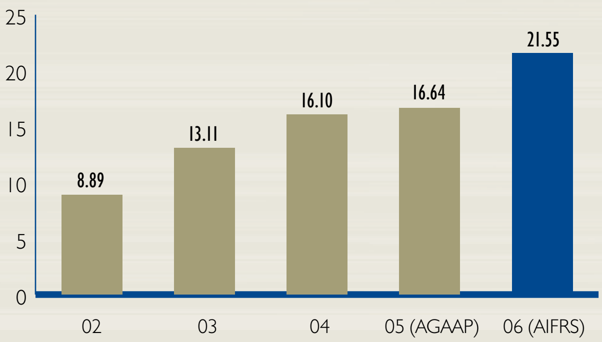
ARE NOTHING WITHOUT INTEGRITY

Caningvale Distribution Centre, WA.

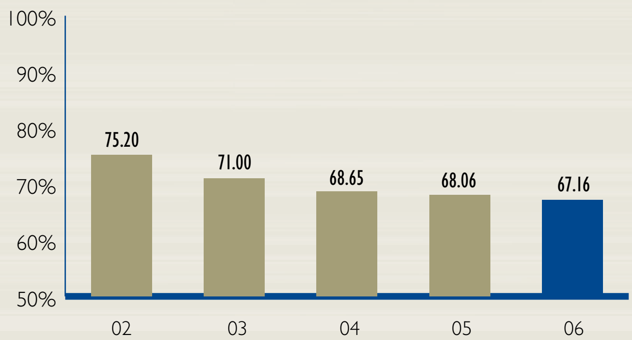
THE YEAR'S HIGHLIGHTS

- > *Acquired Foodland Associated Limited's Australian businesses, integration underway.*
- > *Seventh consecutive record annual profit.*
- > *Strong operating cash flow, $243m generated.*
- > *Dividends declared increased by 21%.*

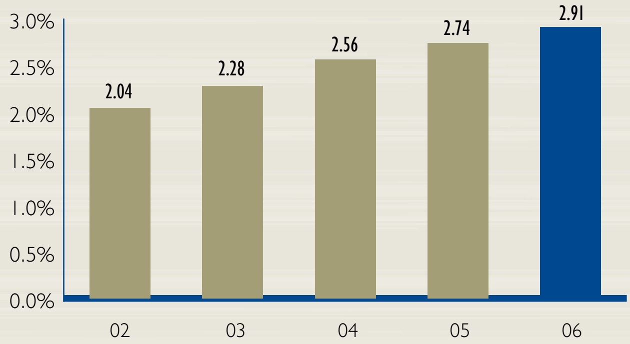
**Weighted Average Earnings per Share (cents)
– excluding CULS, CUPS and Restructure Costs**



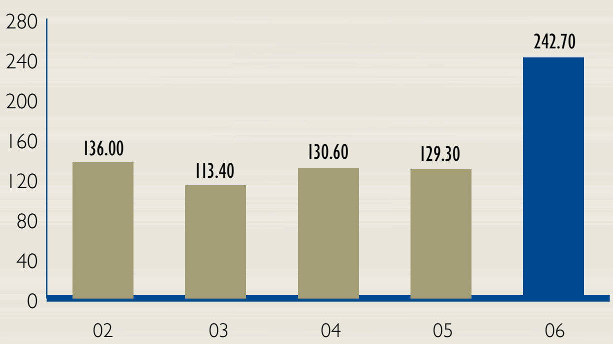
Cost of Doing Business as a per cent of Gross Profit



EBITA as a per cent of Sales



Operating Cash Flow ($m)



REPORT FROM THE CHAIRMAN AND THE CHIEF EXECUTIVE OFFICER

LEFT: Carlos S dos Santos, Chairman with Andrew Reitzer, Chief Executive Officer.

Rocklea fresh produce distribution warehouse, QLD.

All three Metcash businesses, IGA Distribution, Australian Liquor Marketers (ALM) and Campbells Wholesale, grew strongly.

CHAIRMAN'S & CEO'S REPORT

The 2006 financial year was another successful one for Metcash with the posting of the seventh consecutive record annual profit. Wholesale sales increased by 10% to $7.7bn. Because of changed accounting standards as a consequence of the move to Australian International Financial Reporting Standards (AIFRS) and the Company's altered capital structure, it is difficult to make a profit comparison on a profit before or after tax basis but the best indication of comparable profits is from the Earnings Before Interest, Tax and Amortisation (net of CULS, CUPS and Restructure costs) (EBITA) line. EBITA rose 19.5% to $226.9m, reflecting the underlying health of the Metcash businesses and the ability to generate a profit increase of 23.8% from a wholesale sales increase of 10%. On an after tax basis, excluding significant and non-recurring items related to the capital reorganisation, FAL Australian businesses acquisition and restructuring costs, after tax profit increased from the reported $103.3m in the 2005 year to $127.9m in 2006.

A positive cash flow of $242.7m was generated during the year. Net interest paid was $39m, reflecting increased gearing and a more effective capital structure. A final dividend of 6 cents per share will be paid, resulting in dividends declared for the year of 11.5 cents per share, a 21% increase on 2005 dividends declared.

A final dividend of 6 cents per share will be paid, resulting in dividends declared for the year of 11.5 cents per share, a 21% increase on 2005.

FROM LEFT: Robin Johnston, Commercial Manager, WA and Silvestro Morabito, General Manager, WA – Planning ways to grow further the already significant WA business.

FROM LEFT: Vanessa Wiggins, Group OHS & Workers Compensation Manager, and Greg Mitchell – ALM Warehouse Manager NSW, Silverwater Distribution Centre NSW.

FINANCIAL RESULTS

All three Metcash businesses, IGA Distribution, Campbells Wholesale and Australian Liquor Marketers (ALM), grew strongly. It is a tribute to the management of those businesses that they continued to grow during a year in which the Company acquired its former parent company (Metoz Holdings Limited) in a capital reorganisation and the Australian businesses of Foodland Associated Limited (FAL).

IGA Distribution's market share rose from 13% to 18.5% at year end (as calculated by A C Nielsen) whilst EBITA grew 24.1% to $175.8m. Wholesale sales increased by 7.4% to $4.1bn. If the 2005 financial year sales to Franklins were excluded, the increase would be 21%.

Growth has been driven by strong comparable store sales by the business's customers, the IGA and Foodworks independent retailers. IGA's comparable store sales grew by 6.3% in the year whilst Foodworks grew 6%. These 'like on like' sales were stronger than those generated by the two major Australian retail chains.

As an investment in future growth, 44 new IGA stores opened during the year and 48 major refurbishments took place. 76 new stores are 'on the drawing board'. Foodworks plans to open 37 new stores in the coming year and refurbish and expand a further 44 stores.

ALM's sales grew 11.6% on the previous year and EBITA increased by 17.6% to $30.7m. The sales increase was partly due to regaining the ALH Queensland business for a full year, whilst the profit improvement reflects the benefits of productivity gains in the face of competitive pressure on selling margins.

Similarly, Campbells Wholesale lifted sales by 15.9% and EBITA by 22.9% to $21.2m. As well as an increase in sales, the mix of sales also improved with higher sales of the profitable categories of confectionery and grocery. These 'primary sales' increased to more than 55% of total sales.

INTEGRATION OF FAL AUSTRALIAN BUSINESSES

Ownership of the FAL Australian businesses was transferred to Metcash on 2 November 2005. The 2007 financial year will be the first year to reflect a full year of trading for the acquired businesses. The acquisition of the FAL Australian businesses commenced as a hostile takeover and was resolved through a Scheme of Arrangement. As a consequence, no 'due diligence' reviews were undertaken by Metcash. On taking possession, a lot of good news was discovered. The Western Australian grocery distribution business, four Cash & Carry branches, the Foodlink foodservice operation and the company operated Action retail stores are proving excellent buys. The high quality of the former FAL staff has also been part of the good news.

An extensive action plan to integrate the FAL Australian businesses into Metcash was implemented and the actions are running on schedule. Good progress has been made in obtaining the synergy benefits envisaged at the time of acquisition. FAL buying terms have been brought in line with Metcash terms, the Metcash business model has been implemented in Western Australia, accounting and administration

It is anticipated that additional EBIT of between $80m and $90m per annum, before restructuring costs, will be obtained with the integration of the former FAL Australian businesses.

Deli counter at Supa IGA Ashmore, QLD.

Foodlink delivery to Pizza Hut resturant Perth, WA.

has been transferred to the Metcash Silverwater Shared Services Centre and the Metcash logistics platform is being installed in the former FAL warehouses. The FAL Queensland 'Richlands' warehouse has been closed and all former Queensland Action stores are now serviced from the IGA Distribution warehouse complex.

As acquisition of the FAL Australian businesses did not take place until 2 November 2005, with possession obtained on 24 November 2005, it was necessary to postpone the sale of Action stores to independent retailers until after the important Christmas seasonal sales period. It is anticipated that, with the exception of 12 large stores in Perth, the other 50 Action stores will be sold to independent retailers by November 2006. This is in line with the Metcash policy of not competing with the Company's customers. The 12 large stores in Perth will be sold as a single unit at a later stage.

A key feature of the Action stores was the strong fresh food offer, supported by fresh fruit, vegetables and meat warehouses. This operation has been retained and is planned to be extended to other IGA Distribution customers.

All Action, Dewsons and Supa Valu stores that met IGA specifications have been rebranded 'IGA'. The new name was launched in Western Australia on 1 May 2006 and has been strongly supported by Western Australian independent retailers and their customers.

THE THIRD FORCE

Although ALM has been established in all states of Australia and New Zealand for some time, the IGA Distribution and Campbells Cash & Carry businesses have not previously operated in Western Australia. With the FAL Australian businesses acquisition, all businesses are now operating on a 'coast-to-coast' basis. This has been an important step as it increases the scale of operations, increases the customer base and allows the IGA Retail Banner to offer national programs to suppliers. Consumers on a coast-to-coast basis are now provided with an alternative to the two major chains.

This further strengthening of the Metcash businesses enables the Company to provide additional support to its customers, the independent grocery, liquor and convenience retailers of Australia. The market share of Metcash and of its grocery customers has now increased to 18.5% (as calculated by A C Nielsen) and demonstrates the ability of independent retailers to survive and thrive in the face of the two dominant chain store groups.

FUTURE OUTLOOK

The 2007 financial year will be a busy one as the integration of the FAL Australian businesses is completed. It is expected that 50 Action stores will be handed over to new independent retailer owners by November 2006 and the full synergies to be obtained by

IGA Ashmore, WA.

Cash & Carry, Bunbury Branch WA.

integrating the businesses will be extracted. On a full year basis, it is still anticipated that additional EBIT of between $80m and $90m per annum, before restructuring costs, will be obtained with the integration of the former FAL Australian businesses.

The Action fresh food offer is to be extended to other IGA Distribution customers in Queensland and Western Australia and this business will also be established in the other states.

A joint venture buying business between Metcash and Foodstuffs, the leading New Zealand retail group, has been announced and will commence during the year. This venture will enable both Metcash and Foodstuffs to improve their buying terms and become more competitive.

The Campbells Cstore Distribution business will continue to expand its share of the 'Modern Petrol and Convenience' market segment. ALM will continue its program of consolidating the brands of independent liquor retailers whilst reducing its cost of business through warehouse rationalisation and productivity gains.

APPRECIATION

We take this opportunity of thanking our fellow Directors, employees, customers and suppliers for their hard work, support and counselling during the past year. We especially thank Bernard Hale and Michael Wesslink, who have retired from their Board positions, for their contributions as Directors of the Company.

Carlos S dos Santos
Chairman

Andrew Reitzer
CEO

We take this opportunity of thanking our fellow Directors, employees, customers and suppliers for their hard work, support and counselling during the past year.

IGA DISTRIBUTION

EBITA of $175.8m grew by 24.1% on the previous year with a market share of 18.5%.

OPERATIONS SUMMARY

Major Activities

- IGA Distribution's role is to be 'The Champion of the Independent Retailer'.
- Marketing and distribution specialists, supply over 2,700 independent grocery stores in New South Wales, the ACT, Victoria, Queensland, South Australia and Western Australia.
- Providing expertise, tailored to the Independent Retailer's requirements. From the full range of marketing, merchandising, buying and operational and distribution services to the 1,209 IGA stores to distribution for 662 Foodworks stores.
- Operating 12 major distribution centres, benchmarked to international standards to deliver 21,000 stock keeping units (SKUs) of dry, chilled and frozen groceries to 2,700 retail grocery stores.

Significant Achievements

- Wholesale sales increased by 7.4% to $4.1bn.
- Sales increased by 6.3% for comparable IGA stores, 6.0% for comparable Foodworks stores.
- Market share (as per A C Nielsen) at year end was 18.5%, compared to 13.5% in the previous year.
- EBITA of $175.8m grew by 24.1% on the previous year, 32.3% if 2005 sales to Franklins are excluded.
- Sale of the 62 Action supermarkets commenced.
- Agreement by Western Australian retailers to convert Dewsons and Supa Valu brands to IGA.
- Opening of 44 new stores and 48 major refurbishments completed during the year.

Future Direction

- Complete the sale of 62 Action stores.
- Continue to extract all available synergies from integrating the FAL businesses.
- Develop the Fresh Food business acquired from FAL and expand it into the IGA network in Queensland and Western Australia and enter the market in other states.
- Complete the construction of a new dry grocery distribution centre at the Crestmead, Queensland 'Mega Centre'.
- Convert the Western Australian warehouses to the Metcash logistics platform.

IGA D DISTRIBUTION
LEADING INDEPENDENTS FORWARD

Marketing and distribution specialists, supply over 2,700 independent grocery stores in New South Wales, the ACT, Victoria, Queensland, South Australia and Western Australia.

PICTURED: 1 Circle on Cavill IGA, Surfers Paradise QLD. **2** A view from the massive IGA Distribution Centre, Canningvale, WA.
3 FROM LEFT Peter Terpenis, Store Manager and Ben Fairchild with a customer at the Progressive Supa IGA Innaloo Central, WA. **4** IGA focus is on fresh food.

On 2 November 2005 ownership of the Foodland Associated Limited (FAL) Australian businesses passed to Metcash.

These businesses consisted of the Western Australian wholesale grocery business and 62 company operated Action stores located in Western Australia, New South Wales and Queensland. In addition to the Western Australian distribution centres, a Queensland warehouse (Richlands) was also obtained.

As soon as the critical Christmas sales period was concluded, work commenced on selling the Action stores to independent retailers. All stores, with the exception of 12 large Western Australian stores which will be sold as a single package, are expected to be sold by the end of November 2006. The stores have been rebranded from Action to Supa IGA. Western Australian Dewsons and Supa Valu store owners decided to also convert to the IGA brand and the new name was launched in Western Australia on 1 May 2006. Combining Action, Dewsons and Supa Valu brands in Western Australia gives the IGA brand a 32% market share which provides significant opportunities for marketing and advertising economies of scale. Importantly, the IGA brand now operates from 'coast to coast'.

The first stage of supplier term negotiations has been completed and IGA Distribution and FAL buying terms have now been aligned. This will result in the achievement of the first stage of buying synergies. Further synergy benefits will be obtained from improved warehouse productivity due to the implementation of the Metcash logistics platform in the Western Australian warehouses, overhead reductions with the transfer of all accounting and administrative functions to the Metcash Shared Services Centre, and the closure of the Queensland Richlands warehouse. Further benefits will be obtained from the second stage of the supplier term renegotiations.

The 2005/2006 financial year saw continued growth of the IGA Distribution business. Wholesale sales grew by 7.4% to $4.1bn. Importantly, comparable store sales (excluding the acquired FAL Australian businesses) increased by 6.3%. This was an excellent result and demonstrates the success of the repositioning of the IGA brand through the 'Local Heroes' branding and marketing program.

As a further demonstration of this growth, IGA Distribution, as calculated by A C Nielsen, grew by 8.3% whilst the overall market's growth was 4.7%. On this basis IGA Distribution's volume grew by almost twice the market growth.

Reflecting the volume growth, EBITA during the year grew by 24.1% to $175.8m. If the profit generated in the previous year from sales to Franklins is excluded, EBITA increased by 32.3%.

In addition to the successful 'Local Heroes' program, the IGA Distribution volume growth was underpinned by the opening of new stores and major refurbishments during the year. An additional 39,000 sqm of selling space was added to the IGA brand by the opening of 44 new stores. Additionally, 48 major refurbishments were completed during the year. Strong growth for the 2007 financial year should be underpinned by completion of the 76 new stores that are currently 'on the drawing board'.

Another strong performance was recorded by Foodworks, the parallel marketing brand. During a busy year in which their 350 stores were rebranded, comparable store growth of 6% was achieved, in line with the IGA growth. This growth was underpinned by a strong eastern seaboard TV campaign and local store area marketing. During the next 12 months, 37 new stores will be opened and 44 stores refurbished and expanded.

Lou Jardin
CEO IGA Distribution

AUSTRALIAN LIQUOR MARKETERS

Sales grow 11.6% with a strong EBITA growth to $30.7m, up 17.7% on last year.

OPERATIONS SUMMARY

Major Activities

- Broad range liquor wholesaler, supplying over 13,000 hotels, liquor stores, restaurants and other licensed premises throughout Australia and New Zealand.
- Provides retailers with a one stop shop that allows them to receive all their liquor supplies in one delivery, on one invoice; in full, on time, every time, together with strong marketing support and a wide variety of retail services.
- Operates out of 22 distribution centres throughout Australia and New Zealand.
- Includes a specialist on-premise liquor supply and support division to the on-premise sector including bars, restaurants and hotels in both Australia and New Zealand.

Significant Achievements

- Strong sales growth, 11.6% up on previous year.
- Further growth of Independent Brands Australia to 1,647 retail liquor stores and 372 hotel outlets consolidated under the 'Cellarbrations', 'IGA Plus Liquor', 'Cheeers' and 'Liquorwise' brands.
- The hotel buying and promoting banner 'Liquor Alliance', supported by ALM, has grown to 478 outlets.
- Strong EBITA growth to $30.7m, up 17.7% on last year.
- Further productivity gains from the implementation of 'Voice-Pick' in major warehouses.
- Acquired Magees Liquor Wholesalers in North Queensland.
- At year end, 18% of ALM's total customer orders were via the web portal.

Future Direction

- Continue to reduce the cost of doing business through warehouse productivity gains, warehouse rationalisation and increased customer use of electronic ordering and invoicing.
- Continue to encourage banner rationalisation through the growth of Independent Brands Australia.
- Maximise support for all serviced hotel and bottle shop banners to increase their buying strength and improve their retail offer.

At the end of the year, over 5,800 customers had registered to use the web portal and 18% of ALM's total sales volume was ordered online.

PICTURED: 1 Strong branding inside the Helena Valley, WA Cellarbrations store. 2 Wine experts are always on-hand to assist customers at Cellarbrations stores Australia-wide. 3 Cellarbrations Store Beecroft, NSW.

The 2006 year saw a resurgence in sales, with growth of 11.6% on the previous year to $2.4bn.

A key part of this sales growth was the full year effect of regaining the ALH business in Queensland and in gaining further ALH on-premise business in NSW, VIC, SA and WA. New terms of trade with key suppliers resulted in a significant sales uplift for Tasman Liquor, ALM's wholesale business in New Zealand.

The Magees liquor wholesale business in Queensland was acquired in mid-year. This business specialises in the on-premise market and its acquisition has allowed ALM and Harbottle On-Premise to streamline the independent distribution network in Far North Queensland without compromising the standard of customer service.

Although a lot of the sales growth has been achieved at tight margins due to the competitive nature of the liquor wholesaling market, EBITA increased by 17.7% to $30.7m. This improved earning rate was based on continuing productivity gains in warehouses through the implementation of the Metcash logistics platform. Additionally, gains have been obtained through the rationalisation of a number of the small provincial warehouses in Queensland and New Zealand. Despite the acquisition of Magees, the total number of distribution centres operated by ALM has decreased by two to a total of 22 across Australia and New Zealand.

The new ALM web portal continues to generate excitement as it delivers significant benefits to both customers and suppliers. By year's end, over 5,800 customers had registered to be able to place orders and receipt invoices and 18% of ALM's sales volume was being ordered online. Suppliers are now not only able to turn in orders, amend pricing and view their promotions, but they can also check their current stock level in ALM. The ongoing development of the portal means that soon these suppliers will be able to advertise both their promotions and products on the site.

Further gains have been achieved in the rationalisation of the independent liquor segment banner groups. The number of liquor stores and hotels within the Independent Brands Australia umbrella has increased to 1,647. Additional scale for Independent Brands Australia (IBA) has been established by the joining of 452 IGA Plus Liquor stores. This takes the total number of outlets trading under IBA banners to 2,019. IBA's 'Cellarbrations' banner continues to grow in both size and reputation and is now recognised as one of the leading liquor outlet brands in Australia. IBA has also taken over the responsibility for the national marketing for over 6,000 on-premise outlets serviced by Harbottle On-Premise

In a similar vein, the 'Liquor Alliance' buying and promoting group has now increased to 478 hotels and provides marketing and buying benefits to combat the growth of chain operated hotels and liquor stores.

Sales to the 'On-Premise' market continue to grow and at wholesale level totalled $359m for the 2006 year, an increase of 2.6%. To be successful in this market, it is necessary to provide a wide range of products at competitive prices combined with a high level of service and expertise. In order to achieve this, ALM operates specialist on-premise distribution units in both Australia (Harbottle On-Premise) and in New Zealand (Allied Liquor).

The wholesale liquor market remains extremely competitive and faces constant erosion as the two chains increase their market share by purchasing independent retailers and hotels. The growth of IBA and its strategy of rationalising the number of independent retailer banner groups to provide promotional and buying economies of scale provides a partial solution to the chain expansion.

Mike Wesslink
CEO Australian Liquor Marketers

CAMPBELLS WHOLESALE

EBITA has grown to $21.2m, an increase of 22.7%, with a market share of 26.4%.

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OPERATIONS SUMMARY

Major Activities

> 21 Cash & Carry warehouses and 22 regional wholesale distribution warehouses across New South Wales, Victoria, Queensland, South Australia and the Northern Territory, stocking a broad range of groceries, liquor, confectionery and foodservice, serving more than 78,000 business customers.

> 4 Convenience Store Distribution (CSD) Centres and 6 specialist confectionery wholesale outlets.

> Focusing on the convenience sector of the market and servicing customers who buy in quantities that cannot be economically serviced through a full case grocery or liquor distribution centre and require a total supply solution.

Significant Achievements

> Acquisition of 4 Cash & Carry branches and a specialist foodservice business in Western Australia, as a consequence of the FAL acquisition. Campbells Wholesale now a coast-to-coast operator.

> Strong sales growth of 15.8% on the previous year to $1,147m.

> EBITA has grown to $21.2m, an increase of 22.7%.

> Market share in the modern petrol and convenience market has grown to 26.4%.

Future Direction

> Utilise the national network of Campbells Wholesale warehouses to increase sales volume with customers who require national supply across Australia.

> Continue to grow market share in the 'Modern Petrol and Convenience' market, focusing on 'one stop' supply agreements.

This structure has enabled increased focus and specialisation resulting in better productivity, efficiency and increased customer service levels.

PICTURED: 1 C-Store Distribution delivery to 7-Eleven, Maroubra, NSW. **2** C-Store Distribution delivery to Greater Union, Bondi Junction, NSW. **3** Foodlink distribution warehouse O'Connor, Perth, WA. **4** Cash & Carry, Bunbury Branch WA.

The re-engineering of the Campbells Wholesale branch network into four distinct divisions of business focus – Cash & Carry, Wholesale Distribution, Convenience Store Distribution (CSD) and Foodservice Distribution has been established. This structure has enabled increased focus and specialisation resulting in better productivity, efficiency and increased customer service levels.

It is expected that over time the traditional Cash & Carry markets will continue to contract as a greater share of the convenience market is serviced by the 'Modern Petrol and Convenience' sector. The restructure of branches reflects this change and allows Campbells Wholesale to focus on the Modern Convenience market segment whilst still providing service to the traditional market.

An example of this is the supply agreement with the 7-Eleven organisation. 7-Eleven has over 340 franchisees and operates in most Australian states. CSD and 7-Eleven are engaged in removing costs from the supply chain. The Campbells CSD business enables the needs of convenience organisations such as 7-Eleven to be met through one delivery providing all of the products required by convenience stores as opposed to multi-deliveries from the fragmented route trade operation.

Confectionery is an important product category for convenience store sales and hence forms part of the CSD division. The acquisition of CDs, a Western Australian based specialist confectionery distributor, in 2005 provides Campbells Wholesale with the ability to supply confectionery products on a 'coast-to-coast' basis. As a consequence, supply arrangements have been entered into with the major cinema chains. Reflecting the Campbells Wholesale 'one stop shop' capability, the range of products supplied to the theatre chains has now expanded well past the confectionery category.

In a similar vein, the acquisition of four Cash & Carry branches and a foodservice business in Western Australian as a result of the FAL acquisition means that the overall Campbells Wholesale business now operates from coast to coast. Benefits will be extracted from this during the 2007 financial year.

In support of these marketing ventures, further productivity enhancing systems were introduced to the CSD warehouses. Further to the award-winning 'Put-To-Light' technology which provides accurate single item pick and pack capability, a 'Voice-Pick' process has been installed providing accuracy and productivity gains on the full carton component. The CSD warehouses are being reformatted to operate with 'Just-In-Time' inventory, which is cross-docked from manufacturers or IGA distribution centres. This provides cost savings and better utilisation of working capital.

Peter Dubbelman
CEO Campbells Wholesale

THE BOARD

FROM LEFT: LLou Jardin, Andrew Reitzer (CEO), Mike Jablonski.

FROM LEFT: Carlos dos Santos (Chairman), V Dudley Rubin, Bernard Hale.

CARLOS S DOS SANTOS CA (SA)

Non-Executive Chairman

Member of the Remuneration & Nomination Committee

Date of appointment to Metcash Limited: 18 April 2005

Mr dos Santos is the Chief Executive of Metcash Trading Africa (Proprietary) Limited, a company that trades in 10 countries across Africa and the Far East. He has had 36 years industry experience.

A E (TED) HARRIS, AC FID, FAIM, FAICD

Non-Executive Deputy Chairman

Chairman of the Remuneration & Nomination Committee

Date of appointment to Metcash Limited: 18 April 2005

Mr Harris served as Managing Director and Chief Executive Officer of the Ampol Group for a period of 10 years. He was formerly Chairman of Australian Airlines, British Aerospace Australia, the Gazal Corporation and a Director of a number of public companies. Currently, Mr Harris is Chairman of Thakral Holdings, the Australian Radio Network and President of the St. Vincent's Clinic Foundation. He is Deputy Chairman of APN News & Media, a member of the International Advisory Board of INP News & Media and a Director of the New Zealand Radio Network. He is a Life Governor of the Melanoma Foundation, a Life Member of the Australian Sports Commission, a former Commissioner of the ABC and was a member of the executive board of the Sydney Olympics 2000 Bid Company.

ANDREW REITZER BComm MBL

CEO Metcash Group of Companies

Date of appointment to Metcash Limited: 18 April 2005

Mr Reitzer has 28 years experience in the retail/wholesale industry. Previous positions at Metro Cash and Carry include Group Operations Director, heading operations in Russia and Israel, Marketing Director, IT Director and managing various operating divisions.

PETER L BARNES MBA (Melbourne), BComm (Hons)

Non-Executive Director

Member of the Remuneration & Nomination Committee

Date of appointment to Metcash Limited: 18 April 2005

Mr Barnes is Chairman of Ansell Ltd, a Director of News Corporation and Chairman of Samuel Smith & Sons Pty Ltd. Mr Barnes was formerly an executive with Philip Morris International Inc. He held several senior management positions in Australia and overseas – including Managing Director Lindeman Holdings Ltd and President, Asia Region, based in Hong Kong.

BRUCE A HOGAN, AM BEc (Hons) FAICD

Non-Executive Director

Member of the Audit Risk & Compliance Committee

Date of appointment to Metcash Limited: 23 November 2005

Mr Hogan is currently the Chairman of State Super Financial Services Limited and a director of NSW Treasury Corporation and The Snowy Hydro Limited. Mr Hogan was formerly Joint Managing Director of Bankers Trust Australia Limited until 1994 and was previously a director of Coles Myer Limited, Adelaide Casino, Funds South Australia, Energy Australia and GIO Australia Limited.

BERNARD J HALE BTh (SA)

Executive Director

Date of appointment to Metcash Limited: 18 April 2005

Mr Hale was formerly a Director of Metro Cash and Carry Limited of South Africa. Mr Hale has 31 years of IT industry experience, 24 of which have been within the Metro Cash and Carry organisation. Previous positions held in Metro include Operation Director IT, Group IT Director, Group Operations Director (Domestic) and Corporate Group IT Director.

He was appointed Chief Information Officer of Metcash Trading Limited on 1 December 2002. Prior to being appointed to his current role, he served as a Non-Executive Director of Metcash Trading Limited.

Mr Hale retired as a Director on 29 May 2006.

FROM LEFT: Peter L Barnes, A E (Ted) Harris, Bruce Hogan.

FROM LEFT: Mike Wesslink, Edwin Jankelowitz and Richard Longes.

MIKE JABLONSKI

Group Merchandise Director

Date of appointment to Metcash Limited: 18 April 2005

Mr Jablonski has 34 years experience in the food industry. Previous positions include: 1984 Merchandise Executive of Foods of OK Bazaars, 1987-1991 Merchandise and Marketing Director of Score Food Holdings Ltd, 1992-1996 Deputy Group Merchandise Director of Metro Cash and Carry, 1996-1998 Director of Distribution and Retail Development of Metro Cash and Carry. Mr Jablonski is the Group Merchandise Director of Metcash. He is responsible for the Group's Merchandise and Supplier relationships, and the income derived thereof.

EDWIN JANKELOWITZ BComm, CA (SA)

Finance Director

Date of appointment to Metcash Limited: 18 April 2005

Qualified as a Chartered Accountant (SA) in 1966. From July 1967 to November 1979 with Adcock Ingram Ltd in Head Office – promoted over time to Group Company Secretary and then Finance Director.

Consulting January 1980 to March 1983 – business management and tax.

Caxton Ltd 1983-1997 – Finance Director; Managing Director; Chairman. Chairman of other publicly quoted companies.

Metcash Trading Limited – May 1998 to date – Finance Director.

Mr Jankelowitz has spent over 32 years in corporate offices of listed companies with excellent corporate governance reputations. He was a member of the Income Tax Special Court in South Africa for 20 years (1977-1997).

LOU JARDIN

CEO IGA Distribution

Date of appointment to Metcash Limited: 18 April 2005

Mr Jardin has extensive industry experience, including owning and operating independent supermarkets and holding senior positions within a chain store environment, as well as warehouse and distribution operations. He held a senior position with Coles Myer for 11 years before joining Metcash in 1997 as the National Manager of Company owned stores. In 1998, Mr Jardin moved to Queensland as the State General Manager until his current appointment in May 2000 to the role of CEO IGA Distribution.

RICHARD A LONGES BA (Sydney), LLB (Sydney), MBA (NSW), Solicitor (non-practising)

Non-Executive Director

Chairman of the Audit Risk & Compliance Committee

Date of appointment to Metcash Limited: 18 April 2005

Mr Longes has been a Director of a number of public companies and a member of various government bodies and enquiries for more than 20 years. He is currently Chairman of Austbrokers Holdings Ltd and a Director of Boral Limited, Viridis Energy Capital Pty Ltd and Investec Bank (Australia) Ltd.

Mr Longes was formerly a co-founder and principal of the corporate advisory and private equity firm, Wentworth Associates and prior to that a partner of Freehill Hollingdale & Page, solicitors.

V DUDLEY RUBIN CA (SA), HDip BDP, MBA

Non-Executive Director

Member of the Audit Risk & Compliance Committee

Date of appointment to Metcash Limited: 18 April 2005

Mr Rubin is a director of Metcash Trading Africa (Proprietary) Limited, a company that trades in 10 countries across Africa and the Far East. He has had 23 years experience in the industry.

MIKE WESSLINK BSc (Chem Eng) Syd, MBA (UNSW)

CEO Australian Liquor Marketers

Date of appointment to Metcash Limited: 18 April 2005

Mr Wesslink joined ALM in March 1998. He has worked in the liquor industry for over 32 years, having previously held the Chief Executive position at Tooheys Limited and The Swan Brewery Company Limited. More recently, Mr Wesslink worked as Managing Director of Amcor Containers Packing, Asia in managing and establishing packaging operations throughout Asia, particularly in China and Singapore.

Mr Wesslink retired as a Director on 29 May 2006.

THE EXECUTIVE TEAM

FROM LEFT (Standing): Lou Jardin, Mike Jablonski, Bernard Hale, David Johnston, Mike Wesslink, Edwin Jankelowitz, Andrew Reitzer.
FROM LEFT (Sitting): Ken Bean, Peter Dubbelman, John Randall.

ANDREW REITZER BComm MBL

CEO Metcash Group of Companies

Mr Reitzer has 28 years experience in the retail/wholesale industry. Previous positions at Metro Cash and Carry include Group Operations Director, heading operations in Russia and Israel, Marketing Director, IT Director and managing various operating divisions.

KEN BEAN MBA, Grad Dip Bus, Dip Acc

Chief Executive, Group Logistics and Corporate Development

Mr Bean has over 35 years experience in the retail wholesale industry. Previously, Mr Bean was General Manager of Coles Myer Logistics Pty Ltd and was also responsible for Coles Myer Asia's buying offices. Mr Bean has also held senior roles in corporate development, as well as finance and administration. He also has significant industrial property development, and construction experience and is currently a member of the Logistics Association of Australia and the Australian Logistics Council.

PETER DUBBELMAN MBA (Melb)

CEO, Campbells Wholesale

Appointed CEO of Campbells Wholesale in June 1998. He has over 22 years experience in fast moving consumer goods distribution at wholesale, primarily in multi-site general management.

Mr Dubbelman has successfully initiated major growth of the wholesale business through the establishment of an effective network of Campbells and Cstore Distribution warehouses which service the hospitality, liquor and convenience sectors in Australia.

Over the last 4 years, an effective national network of warehouses has been established, which, with integrated specialist confectionery businesses will continue to provide an effective total supply solution to the convenience industry in Australia.

BERNARD J HALE BTh (SA)

Executive Director

Mr Hale was formerly a Director of Metro Cash and Carry Limited of South Africa. Mr Hale has 31 years of IT industry experience, 24 of which have been within the Metro Cash and Carry organisation. Previous positions held in Metro include Operation Director IT, Group IT Director, Group Operations Director (Domestic) and Corporate Group IT Director.

He was appointed Chief Information Officer of Metcash Trading Limited on 1 December 2002. Prior to being appointed to his current role, he served as a Non-Executive Director of Metcash Trading Limited.

All three Metcash businesses, IGA Distribution, Australian Liquor Marketers (ALM) and Campbells Wholesale, grew strongly. It is a tribute to the management of those businesses that they continued to grow during a year in which the Company acquired its former parent company (Metoz Holdings Limited) in a capital reorganisation and the Australian businesses of Foodland Associated Limited (FAL).

MIKE JABLONSKI

Group Merchandise Director

Mr Jablonski has 34 years experience in the food industry. Previous positions include: 1984 Merchandise Executive of Foods of OK Bazaars, 1987-1991 Merchandise and Marketing Director of Score Food Holdings Ltd, 1992-1996 Deputy Group Merchandise Director of Metro Cash and Carry, 1996-1998 Director of Distribution and Retail Development of Metro Cash and Carry. Mr Jablonski is the Group Merchandise Director of Metcash. He is responsible for the Group's Merchandise and Supplier relationships, and the income derived thereof.

EDWIN JANKELOWITZ BComm, CA (SA)

Finance Director

Qualified as a Chartered Accountant (SA) in 1966. From July 1967 to November 1979 with Adcock Ingram Ltd in Head Office – promoted over time to Group Company Secretary and then Finance Director.

Consulting January 1980 to March 1983 – business management and tax.

Caxton Ltd 1983-1997 – Finance Director; Managing Director; Chairman. Chairman of other publicly quoted companies.

Metcash Trading Limited – May 1998 to date – Finance Director.

Mr Jankelowitz has spent over 32 years in corporate offices of listed companies with excellent corporate governance reputations. He was a member of the Income Tax Special Court in South Africa for 20 years (1977-1997).

LOU JARDIN

CEO IGA Distribution

Mr Jardin has extensive industry experience, including owning and operating independent supermarkets and holding senior positions within a chain store environment, as well as warehouse and distribution operations. He held a senior position with Coles Myer for 11 years before joining Metcash in 1997 as the National Manager of Company owned stores. In 1998, Mr Jardin moved to Queensland as the State General Manager until his current appointment in May 2000 to the role of CEO IGA Distribution.

DAVID JOHNSTON MBus (Employment Law), AFAHRI, JP

Chief Human Resources Officer

Mr Johnston joined Metcash in December 2001. He has had 28 years experience in Human Resources with some of Australia's leading FMCG companies including Cadbury Schweppes and Simplot Australia at senior executive level. He has designed and implemented successful programs in executive development and implemented major culture change initiatives at a national and international level.

JOHN RANDALL BEc, FCPA, FCIS, MAICD

General Manager Finance and Company Secretary

Mr Randall joined the Company in 1997. Previously Chief Financial Officer of Metal Manufactures Limited and Overseas Telecommunications Corporation Limited. Member and former President of the Accounting Foundation, University of Sydney, a former National President of the Group of 100, NSW President and National Board member of CPA Australia.

MIKE WESSLINK BSc (Chem Eng) Syd, MBA (UNSW)

CEO Australian Liquor Marketers

Mr Wesslink joined ALM in March 1998. He has worked in the liquor industry for over 32 years, having previously held the Chief Executive position at Tooheys Limited and The Swan Brewery Company Limited. More recently, Mr Wesslink worked as Managing Director of Amcor Containers Packing, Asia in managing and establishing packaging operations throughout Asia, particularly in China and Singapore.

FINANCIAL AND STATISTICAL HIGHLIGHTS

FIVE YEAR REVIEW

	AIFRS		AGAAP			
	2006 $'000	2005 $'000	2005 $'000	2004 $'000	2003 $'000	2002 $'000
Income Statement						
Net sales	**8,214,375**	7,010,374	6,993,660	7,173,897	6,695,519	5,769,379
Earnings before amortisation, interest and taxation (a)	**196,259**	194,530	192,283	183,842	152,704	117,481
Earnings before interest and taxation (a)	**174,000**	186,601	170,519	163,241	133,549	98,915
Interest, net	**40,514**	1,455	1,455	7,590	7,503	9,689
Operating profit before tax (a)	**133,486**	185,146	169,064	155,651	126,046	89,226
Balance Sheet						
Metcash Shareholders Equity	**1,032,867**	4,465	763,588	470,155	427,102	343,634
Net tangible assets per share (cents)	**(2.4)**	(73)	(56)	36	29	16
Interest-bearing debt to equity (%)	**73**	76	54	15	29	51
Share Statistics						
Fully paid ordinary shares	**747,741,353**	427,395,233	739,129,828	636,761,358	630,748,848	604,199,148
Weighted average ordinary shares	**593,675,382**	427,395,233	675,509,174	633,572,081	620,622,370	531,914,131
Converting preference shares	–	–	–	–	–	–
Earnings per ordinary share (cents) (b)	**13.67**	29.68	15.30	16.10	13.10	8.89
Dividends declared per share (cents)	**11.50**	9.50	9.50	11.00	8.60	5.00
Dividends per CPS (cents)	–	–	–	–	–	8.43
Other Statistics						
Number of employees (full-time equivalents)	**7,033**	4,316	4,316	4,317	4,202	4,156

(a) Earnings after CULS, CUPS and restructure costs in 2006 only.

(b) Basic earnings per share has been calculated using weighted average number of shares before the effect of dilutive securities (share options).

Inside Caningvale Distribution Centre, WA.

Foodlink operations staff O'Connor, WA.

CORPORATE GOVERNANCE

METCASH LIMITED ABN 32 112 073 480

The Directors support and adhere to the principles of corporate governance. In supporting these principles, the Directors acknowledge the need for the highest standards of behaviour and accountability.

THE BOARD

The principal functions of the Board include:

- charting the direction, strategies and financial objectives of the Company;
- monitoring implementation of those strategies and the operational and financial performance and risk of each of the Company's activities;
- reviewing major capital expenditure, acquisitions, divestments and funding;
- reviewing performance, remuneration and succession of senior management;
- monitoring compliance with legal regulatory requirements, including occupational health and safety laws, product safety and the protection of the environment;
- monitoring the Company's relationships with its stakeholders and compliance with ethical standards and the Company's Code of Conduct.

The Board's Charter can be found on the Company's web site (www.metcash.com) under the heading 'Corporate Governance'.

NOMINATIONS TO THE BOARD

The composition of the Board is monitored (with respect to both size and membership) to ensure that the Board has the appropriate mix of skills and experience.

When a vacancy exists, or when it is considered that the Board would benefit from the services of a new Director with particular skills, the Remuneration & Nomination Committee selects a panel of candidates with appropriate expertise and experience. This may be supplemented with advice from external consultants if necessary. The Board, on the Committee's recommendation, then appoints the most suitable candidate who must stand for election at the next general meeting of shareholders.

Directors are not appointed for a fixed term but, under the Company's Constitution, must be re-elected each 3 years by rotation and are subject to Australian Stock Exchange (ASX) Listing Rules and Corporations Act provisions.

BOARD COMPOSITION (ASX GUIDELINES PRINCIPLE 2)

Metcash has an overriding objective that the Board should consist of Directors who provide a mix of industry experience and knowledge and the overall skill and wisdom to enable the Company to grow for the benefit of all shareholders and stakeholders. The Board places a priority on selection of Directors for their ability to display independence of mind which will enable them to make decisions impartially and for the benefit of all shareholders.

For details of the skills, experience and expertise of the individual Directors, please refer to page 12, headed 'The Board', of this report.

The Board of Metcash Limited is currently constituted as follows:

- 2 Non-Executive Directors, including the Chairman, who were representatives of the former majority shareholder. These Directors have extensive knowledge and experience of grocery wholesaling and marketing. As they were executives of Metoz Holdings Limited, the former majority shareholder, within the last 3 years, they do not meet the ASX Corporate Governance Guidelines definition of independent.
- 4 Independent Directors, holding key positions that include chairing the Board committees of Audit Risk & Compliance and Remuneration & Nomination. They provide an external perspective and checks and balances for the interests of all shareholders.
- 4 Executive Directors, each of whom is responsible for key activities of the Company. Their membership of the Board enables direct access to key executives by the Independent Directors such that Board discussions and decisions are held on a fully informed basis and it enables the Non-Executive Directors to obtain greater personal knowledge of key executives, aiding the management succession process. Prior to 25 May 2006, 6 Executive Directors were members of the Board. After the retirement of Mr Hale and Mr Wesslink as Directors, the Board now has a majority of Non-Executive Directors.

The Board of Metcash Limited does not conform to ASX Corporate Governance Principle 2, in relation to Board composition in two respects:

1. The Board does not have a majority of Independent Directors; and
2. The Chairman (Carlos dos Santos) has an association with the former majority shareholder as described above.

Overall, the Board of Metcash Limited believes it has the capability and does bring independent judgement to bear on decision making. In 2004 the Board commissioned Cameron Ralph Pty Ltd, a consultancy specialising in Board performance, to conduct a review of the capacity of the Metcash Board to act in that way. With the reconstitution of the Board, it is proposed to conduct a similar review in the coming financial year.

The Board believes that the presence of the Executive Directors adds considerable knowledge and expertise to the operations of the Board, and that the Board's mode of operation and processes are always capable of ensuring that the presence of the Executive Directors does not limit the ability of the Independent Directors to contribute.

Neither Mr Harris, Mr Barnes, Mr Hogan nor Mr Longes (the four Independent Directors) are substantial shareholders of the Company or associated with a substantial shareholder of the Company. They have not been employed by the Company in an executive position, are not material suppliers or customers of the Group, have no material contractual relationship with the Group, have no interest, business or other relationship, nor have they served on the Board for a period which could be perceived to materially interfere with the Directors' responsibility to act in the best interests of the Company.

Mr Harris has been a Director of Metcash Limited and its predecessors since 1994. The Board considers Mr Harris' tenure to have provided valuable leadership continuity and experience and that this does not in any way limit his ability to act in the best interests of the Company. Mr Barnes is Chairman of Samuel Smith & Sons Pty Ltd and a Director and Chairman of Ansell Limited, suppliers to the Company; however, the level of purchases involved is not considered material.

INDEPENDENT REVIEW OF BOARD EFFECTIVENESS

Board performance consultants Cameron Ralph Pty Ltd were engaged in 2004 to conduct an independent review of the Board's effectiveness and, in particular, its capacity to act independently and in the interests of all shareholders. A review was not conducted in the current year due to the then pending Board reconstitution. It is proposed that an independent review be conducted in the coming financial year.

INDEPENDENT PROFESSIONAL ADVICE

The Board has a policy of enabling Directors to seek independent professional advice at the Company's expense. The Board will review in advance the estimated costs for reasonableness, but will not impede the seeking of advice.

AUDIT RISK & COMPLIANCE COMMITTEE

The membership of the Audit Risk & Compliance Committee consists of the following Non-Executive Directors.

Member	Qualifications	Meetings Held	Meetings Attended
R A Longes (C)	BA, LLB, MBA	4	4
P L Barnes (to 23 November 2005)	BComm (Hons), MBA	3	3
B A Hogan, AM (from 23 November 2005)	BEc (Hons) FAICD	1	1
V Dudley Rubin	CA (SA), HDip BDP, MBA	4	4

(C) Chairman

The function of the Audit Risk & Compliance Committee is to advise on the establishment and maintenance of a framework of internal control, effective management of financial and other risks, compliance with laws and regulations and appropriate ethical standards for the management of Metcash. It also gives the Board additional assurance regarding the quality and reliability of financial information prepared for use by the Board in determining policies or for inclusion in the financial statements.

The principal terms of reference of the Audit Risk & Compliance Committee are the effective management of financial and other risk through ensuring that systems and management processes are in place to identify and manage operational, financial and compliance risks.

Specific areas of review include:

- financial risk and exposure;
- occupational health and safety;
- environmental issues;
- HACCP; and
- integrity of information technology systems.

The Board reviews the effectiveness of risk management policies and procedures by:

- undertaking, annually, a comprehensive strategic and budget review of the Group's activities;
- reviewing monthly financial performance against budget and updated forecasts at least quarterly;
- reviewing the internal audit of the Group's financial controls, taxation compliance and adherence to policies and regulations;
- reviewing annually the effectiveness and adequacy of the Group's insurance program;
- the provision of reliable management and financial reporting; this is done by reviewing and assessing the:
  - quality and timing of management reporting to the Board to enable internal and external reporting of the Company's risks, operations and financial condition;
  - accounting policies and practices against generally accepted accounting principles and the requirements of the Corporations Law, Australian Accounting Standards and Australian Stock Exchange requirements;
  - half-yearly and annual financial statements;
- compliance with laws and regulations by monitoring developments and changes in the various rules, laws and regulations relating to the Company's business operations, the responsibilities of Directors and reviewing the extent to which the Board and the Company are meeting their obligations and to ensure that all requirements are met;
- the maintenance of an effective and efficient audit function; this is achieved by:
  - recommending to the Board the appointment of external and internal auditors;
  - reviewing the effectiveness of the external and internal audit functions;
  - ensuring audit scopes are adequate and cover areas of anticipated risk;
  - reviewing audit findings and management response;
  - reviewing the independence of the external auditor;
  - ensuring auditors have the necessary access to Company information and staff to fulfil their obligations.

The Committee's Charter can be found on the Company's web site (www.metcash.com) under the heading 'Corporate Governance'.

CODE OF ETHICS/CONDUCT

The Company has a Code of Conduct that applies to Directors and all employees. Subjects covered by the Code include:

- equal employment opportunity, discrimination and harassment;
- security of Company records and assets and confidentiality guidelines;
- conflict of interest, acceptance of gifts, entertainment and services;
- fraud, corruption and irregular transactions;
- legal compliance;
- honest ethical behaviour;
- environmental protection, safe working environment.

The Code can be found on the Company's web site (www.metcash.com) under the heading 'Corporate Governance'.

Compliance with the Code is checked through the Company's processes including internal audit, security, human resources and occupational health and safety. New staff members are required to attend an induction program that includes behaviour guidelines. Additionally, the Company's staff appraisal process includes employees' performance against 'Key Behavioural Indicators' as well as 'Key Performance Indicators'.

The Company also has a Share Trading Policy and a Continuous Disclosure Policy, copies of which can be found on the Company's web site (www.metcash.com) under the heading 'Corporate Governance'.

REMUNERATION & NOMINATION COMMITTEE

Members of the Committee, and attendance at meetings, are shown below:

Member	Qualifications	Meetings Held	Meetings Attended
A E (Ted) Harris, AC (C)	FID, FAIM, FAICD	5	5
C S dos Santos	CA (SA)	5	5
P L Barnes	BComm (Hons), MBA	5	5

(C) Chairman

Responsibilities of the Committee include:

- advise the Board on remuneration of the CEO and senior management;
- advise the Board on performance-linked compensation for management;
- oversee the administration of the Metcash Employees Option Plan;
- advise the Board on directorship appointments, performance of the CEO;
- implement processes to assess the effectiveness of the Board and its Committees.

The Charter of the Committee can be found on the Company's web site (www.metcash.com.) under the heading 'Corporate Governance'.

A formal review of the Board's effectiveness was undertaken during the year 2004 by Cameron Ralph Pty Ltd.

In relation to key executives, the Company maintains a performance evaluation process which measures them against Key Performances Indicators and Key Behavioural Indicators. This is performed formally once a year with quarterly reviews.

REMUNERATION POLICY

The Company remuneration policy can be found on the Metcash Limited web site (www.metcash.com) under the heading of 'Corporate Governance'. It is summarised in the 'Remuneration Report' contained within the Directors' Report. Details of the compensation of key management personnel are also contained in the Directors' Report.

NON-EXECUTIVE DIRECTORS COMPENSATION

Refer to the 'Remuneration Report' contained within the Directors' Report.

TERMINATION ENTITLEMENTS

Refer to the 'Remuneration Report' contained within the Directors' Report.

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CORPORATE INFORMATION

ABN 32 112 073 480

DIRECTORS

Carlos S dos Santos (Chairman)

A E (Ted) Harris, AC (Deputy Chairman)

Andrew Reitzer (CEO)

Michael R Jablonski

Edwin M Jankelowitz

V Dudley Rubin

Peter L Barnes

Richard A Longes

Bruce A Hogan, AM

Joao Louis S Jardim (Lou Jardin)

COMPANY SECRETARY

John Randall

REGISTERED OFFICE

4 Newington Road
Silverwater NSW 2128
Telephone: 61 2 9741 3000

SHARE REGISTER

Registries Ltd
PO Box R67
Royal Exchange
Sydney NSW 1223

Telephone: 61 2 9290 9600
Facsimile: 61 2 9279 0664

AUDITOR

Ernst & Young

INTERNET ADDRESS

www.metcash.com

DIRECTORS' REPORT

YEAR ENDED 30 APRIL 2006

Your Directors submit their report for the year ended 30 April 2006.

DIRECTORS

The names and details of the Company's Directors in office during the financial year and until the date of this report are as follows:

Carlos S dos Santos (Chairman)

A E (Ted) Harris, AC (Deputy Chairman)

Andrew Reitzer (CEO)

Michael R Jablonski

Edwin M Jankelowitz

V Dudley Rubin

Peter L Barnes

Richard A Longes

Bruce A Hogan, AM (appointed 24 November 2005)

Bernard J Hale (resigned 29 May 2006)

Joao Louis S Jardim (Lou Jardin)

Michael Wesslink (resigned 29 May 2006)

Directors were in office for this entire period unless otherwise stated.

COMPANY SECRETARY

John Randall

For qualifications and experience of Directors please refer to 'the Board' section of this annual report.

For qualifications and experience of the Company Secretary please refer to 'the Executive Team' section of this annual report.

INTERESTS IN THE SHARES AND OPTIONS OF THE COMPANY AND RELATED BODIES CORPORATE

As at the date of this report, the interests of the Directors in the shares and options of Metcash Limited were:

	Number of ordinary shares	Number of options over ordinary shares
Carlos S dos Santos	100	–
A E (Ted) Harris, AC	404,695	–
Andrew Reitzer	1,410,000	1,540,000
Michael R Jablonski	–	820,000
Edwin M Jankelowitz	520,000	820,000
V Dudley Rubin	5,900	–
Peter L Barnes	177,083	–
Richard A Longes	125,000	–
Bruce A Hogan, AM	75,000	–
Bernard J Hale	–	1,500,000
Joao Louis S Jardim	440,000	730,000
Michael Wesslink	365,849	890,000

EARNINGS PER SHARE

	Cents
Basic earnings per share	13.67
Diluted earnings per share	13.52

DIRECTORS' REPORT

YEAR ENDED 30 APRIL 2006

DIVIDENDS

	$'000
Dividends paid in the year	
Interim for the year	
– on ordinary shares in December 2005	27,732
	27,732
Final for 2006 declared	
– on ordinary shares	44,864
	44,864

CORPORATE INFORMATION

Corporate structure

Metcash Limited is a company limited by shares that is incorporated and domiciled in Australia.

Nature of operations and principal activities

The principal activities during the year of entities within the consolidated entity were the wholesale distribution and marketing of groceries, liquor and associated products.

Employees

The consolidated entity employed 7,033 employees as at 30 April 2006 (2005: 4,316 employees).

REVIEW AND RESULTS OF OPERATIONS

Group overview

A review of the operations during the period and the results of those operations, appears in the 'Report from the Chairman and the Chief Executive Officer' on page 2.

Summarised operating results are as follows:

	2006	
	Revenues $'000	Profit before tax $'000
Business segments		
Food Distribution	4,659,265	175,808
Cash & Carry Distribution	1,147,438	21,235
Liquor Distribution	2,407,672	30,712
	8,214,375	227,755
Consolidated entity adjustments/(unallocated amounts)	37,271	(94,269)
Consolidated entity sales and profit from ordinary activities before income tax expense	8,251,646	133,486

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

No significant changes in the state of affairs of the Company occurred during the financial period, not otherwise disclosed in the 'Report from the Chairman and the Chief Executive Officer'.

SIGNIFICANT EVENTS AFTER THE BALANCE DATE

No significant events occurred after balance date.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

Information with respect to likely developments is set out within the 'Report from the Chairman and the Chief Executive Officer' elsewhere in this annual report.

DIRECTORS' MEETING

The number of meetings of Directors (including meetings of committees of Directors) held during the year and the number of meetings attended by each of the Directors were as follows:

		Meetings of committees	
	Directors' meetings	Remuneration & Nomination	Audit Risk & Compliance
Number of meetings held:	5	5	4
Number of meetings attended:			
C S dos Santos	4	5	–
A E (Ted) Harris, AC	5	5	–
Andrew Reitzer	5	–	–
Michael R Jablonski	5	–	–
Edwin M Jankelowitz	5	–	–
V Dudley Rubin	5	–	4
Peter L Barnes	5	5	3
Richard A Longes	5	–	4
Bruce A Hogan, AM	2	–	1
Bernard J Hale	5	–	–
Joao Louis S Jardin	5	–	–
Michael Wesslink	5	–	–

All Directors were eligible to attend all meetings held, except for Bruce A Hogan, who was eligible to attend 2 Directors' meetings and 1 Audit Risk & Compliance Committee meeting.

Committee membership

As at the date of this report, the Company had an Audit Risk & Compliance Committee and a Remuneration & Nomination Committee.

Members acting on the committees of the Board during the year were:

Audit Risk & Compliance

R A Longes (c)
P L Barnes*
V Dudley Rubin
B A Hogan, AM*

Remuneration & Nomination

A E (Ted) Harris, AC (c)
P L Barnes
C S dos Santos

Notes

(c) Designates the chairman of the committee.

* B A Hogan, AM replaced P L Barnes on the Audit Risk & Compliance Committee.

For details of the committees, their charters and current membership, please refer to the section 'Corporate Governance'.

Indemnification and insurance of directors and officers

(i) The Constitution of the Company permits the grant of an indemnity (to the maximum extent permitted by law) in favour of each Director, the Company Secretary, past Directors and Secretaries, and all past and present Executive Officers. The Company has entered into Deeds of Indemnity and Access with F J Conroy, C P Curran, J R Fleming, T S Haggai, D W J Bourke, R S Allan, J J David and Sir Leo Heilscher together with all of the current Directors and certain other officers of the Company. This indemnity is against any liability to third parties (other than related Metcash companies), by such officers unless the liability arises out of conduct involving a lack of good faith. The indemnity also includes costs or expenses incurred by an officer in unsuccessfully defending proceedings relating to that person's position.

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

SHAREHOLDER RETURNS

The ongoing performance of the Group has ensured that returns to shareholders, through both dividends and capital growth has continued.

	AIFRS		AGAAP			
	2006	2005	2005	2004	2003	2002
Earnings before CULS, CUPS and restructure costs in 2006 only	**21.55**	31.81	16.64	16.10	13.10	8.89
Earnings per share before goodwill/intangible amortisation	**14.16**	29.68	19.29	18.86	16.19	14.09
Basic earnings per share (a)	**13.67**	29.68	15.30	16.10	13.10	8.89
Dividends declared per share	**11.50**	9.50	9.50	11.00	8.60	5.00
Dividends paid per share	**5.50**	15.50	15.50	9.60	7.00	2.00
Return on equity (b)	**15.70**	28.80	15.30	22.70	21.10	16.50
Share price (30 April)	**4.60**	3.20	3.20	2.05	2.19	2.40

(a) Under AIFRS, the comparative Earnings per Share (EPS) (2005) is calculated, under the reverse acquisition rules, using Metcash Limited (MTS) shares at the close (30 April 2005). This has impacted on EPS reported by 14.4 cents compared with EPS under AGAAP. Basic EPS under AGAAP was 15.3 cents. The weighted average of MTS shares issued on 30 April 2005 was 427,395,233 and on 30 April 2006 was 593,675,382. Basic earnings per share has been calculated using weighted average number of shares before the effect of dilutive securities (share options).

(b) Return on equity has been impacted in 2005, under AIFRS, by the reverse acquisition. Average equity in 2005 under AIFRS was $440 million and under AGAAP was $673 million.

ROUNDING

The amounts contained in this report and in the financial report have been rounded to the nearest $1,000 (where rounding is applicable) under the option available to the Company under ASIC Class Order 98/0100. The Company is an entity to which the Class Order applies.

TAX CONSOLIDATION

Metcash Limited has entered a tax consolidation group including its 100% owned subsidiaries. Members of the group have entered into a tax sharing arrangement in order to allocate income tax expense to the wholly owned subsidiaries on a pro-rata basis. In addition, the agreement provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations.

OCCUPATIONAL HEALTH AND SAFETY

Health, Safety, Environment, and Community (HSEC)

Metcash recognises that effective governance of Health, Safety, Environment and Community requires participation and support of all parts of our geographically diverse business. We have an obligation to our communities and a range of stakeholders to demonstrate a consistent corporate commitment to HSEC through leadership and the allocation of resources. Metcash aims to ensure that all stakeholders are aware of how their action or inaction can influence the effectiveness of HSEC governance, and strives to implement and continuously improve best practice models to achieve effectiveness in the areas of health, safety, environment and community governance.

Our people

Workforce engagement

At Metcash, engagement means the alignment of employees' efforts and contributions to those of the business and of shareholders. It is about constant communication, regular and frequent team briefs and understanding and, perhaps more importantly, 'doing something about' what concerns employees in their day-to-day activities. Engagement at all levels of the workforce is one key to Metcash's ongoing success. Re-enforced by work/life balance policies such as the highly successful 'Pro-Fit', which targets activities and programs designed to enrich the wellbeing of all employees, Metcash continues to acknowledge and value the contributions of all its employees.

The results of the 2005 climate survey have been released to all employees. They show that there are still improvements to be made in areas such as rewarding performance and career development. Plans are being formulated to address these concerns. However, the majority of comments were positive and complimentary, including that employees care about the future of the organisation, understand how they contribute to Metcash's success and believe that Metcash has effective leadership.

The people side of the FAL integration was highly effective, with no major concerns arising. The incorporation of the Metcash culture was a high priority and feedback from the new Metcash employees shows a high regard and appreciation for engagement and wellbeing matters.

Workforce development and competency

Metcash uses a competency framework to ensure that employee development is aligned to business needs and outcomes. As part of the annual review process, managers work with employees to establish an Employee Development Plan which addresses their individual development needs. These plans are analysed by the Company and used to plan the delivery of training programs across the Group.

In addition to the standard operational training provided within each business pillar, a range of traineeships is offered across the Metcash Group. These allow employees to gain formal recognition of their skills and abilities leading to a nationally recognised qualification.

Metcash has also adopted the Diploma of Business (Frontline Management) as a core element of its management development process. This program involves attendance at a range of workshops and the delivery of a business focused project, enabling participants to immediately apply their learning to a business issue. In addition, the Company offers a range of management and leadership development programs, including the Metcash High Performing Manager Program for middle managers, and the Metcash Executive Leadership Program for senior managers.

While still offering traditional classroom training, Metcash is increasing its use of e-learning in the provision of training. E-learning allows greater flexibility for both the Company and employees and is particularly useful in efficiently servicing regional operations. Currently, employees can access an extensive range of desktop applications and recently the e-learning offering has been expanded to include a Discrimination and Harassment Awareness program.

Metcash encourages employees to continue their personal and professional development through formal education at either undergraduate or postgraduate level. Through a Company sponsorship scheme, eligible employees receive a reimbursement towards course fees on the successful completion of each unit of study.

Health services

The Metcash Pro-Fit Program continued in its second year and offers all employees a range of wellbeing and family friendly initiatives. These include annual health checks and flu vaccinations, health education programs, employee counselling services, purchased annual leave, flexible start and finish times, paid parental leave, healthy cafeteria options, family fun days, walking tracks, lifestyle vouchers and wellbeing days. The Pro-Fit program has been embraced enthusiastically by employees and Metcash will continue to drive and expand the initiatives as part of broader morale, staff attraction and retention strategies.

Safety

Commitment and strategy

The health and safety of our people at work is a high priority. Metcash acknowledges the continuing requirement to maintain vigilance towards safety and to be proactive in identifying new ways to improve performance through actively engaging our people in 'Managing Safety Together'.

Significant reductions in all areas of safety and workers' compensation were achieved during the year. Effective implementation of our proactive safety, workers' compensation and injury management strategy has specifically delivered these reductions. Key achievements included the development of new National Safe Work Systems procedures and a best practice Health, Safety, Environment and Community (HSEC) Standards Framework, which will be implemented over the next 12 months. This framework includes:

- HSEC Governance Charter and Standards Framework to provide guidance, policy and principles on what constitutes acceptable levels of performance for HSEC;
- HSEC Assurance Guidelines for a reporting framework for performance targets, measurement, assurance and communication of performance for stakeholder and public reporting;
- HSEC Management Systems to provide integrated HSEC management systems and processes to ensure effective implementation and operation to realise HSEC principles.

Risk and hazard management initiatives

Metcash continues to drive its national safety strategy with annual Safety and Injury Management Plans for every Metcash site and annual internal audits demonstrating significant improvement in safety compliance for the business. Key areas of risk management continue to focus on reducing high risk industry hazards such as manual handling to ensure the improvement of safety in our operations for our employees.

DIRECTORS' REPORT

YEAR ENDED 30 APRIL 2006

Performance results, management evaluation and review

Over the past 12 months, Metcash's investment in the National Safety Management Strategy has resulted in significant improvements, as the table below shows:

Statistic	Percentage change from previous year
Lost time incident frequency rate (LTIFR)	↓ 36% decrease
Number of lost time injuries	↓ 35% decrease
Number of hours lost	↓ 26% decrease
Severity rate	↓ 21% decrease
Number of workers' compensation claims	↓ 35% decrease
Number of hazard inspections	↑ 285% increase
Number of employee consultation safety meetings	↑ 190% increase

Metcash utilises positive performance indicators such as hazard inspections and employee consultation safety meetings alongside lag indicators (LTIFR), as a more holistic way of measuring the overall effectiveness of safety performance.

Our places of work

The Company continues to actively set formal targets and develop and implement effective strategies to ensure its business units comply with chain of responsibility transport safety legislation requirements, dangerous goods management, packaging recycling legislation, while assisting with plastic bag reduction commitments of its retailers.

Environmental management

There were zero environmental incidents for the year. The gap analysis review from environmental audits completed at each site in 2005 and the plans developed from these audits are being reviewed against new Energy Efficiency Opportunity requirements. Energy and water consumption are undergoing reviews across Metcash warehouses over the next 6 months to identify improvement opportunities. Energy saving initiatives are already being designed into new building works under our commitment to reduce the impact of energy usage on the environment.

The National Packaging Covenant joint Industry/Government system continues to be supported by Metcash. Negotiations for the national cardboard and plastic recovery programs are complete and the programs will commence from May 2006.

The plastic shopping bags reduction campaign continued for IGA retailers in conjunction with the ARA Code of Practice, Metcash and Clean Up Australia. The report to the Federal Environment Minister advised that the major retailers (including IGA stores) were able to achieve a 45% reduction in plastic bags as at end of December 2005 compared to the 50% reduction target against December 2002 bag numbers. IGA stores will continue to work towards the 50% bag reduction target by the end of 2006 and maintain the education campaigns to encourage consumer behaviour change.

Dangerous goods

Formal consolidated data management for ongoing risk mitigation was implemented.

Chain of responsibility

Metcash is participating in the development of a retail industry code with other industry groups to ensure transport management and inspection procedures are agreed to and implemented efficiently by all groups involved. Implementation of this initiative will include training across all warehouses nationally in these procedures.

Bioterrorism assessments

Metcash continues to assist in a number of food industry consultative groups to increase security management across the businesses and to assist the Food Industry Infrastructure Assurance Action Group to better prepare the community and the Company controlled sites for possible pandemic or other bioterrorism risks.

Our processes and products

Product safety/public health

The Company continues to implement effective strategies to ensure its business units comply with food safety and food labelling legislation plus assisting with the training and implementation of these programs with its independent retail customers. The merger of FAL and the takeover of Australian Asia Pacific Wholesalers (AAW) activities by Metcash continues with centralisation of product specifications management. These have now been fully centralised within Metcash to ensure ongoing compliance.

New Country of Origin Labelling (Cool) requirements resulted in a joint application request by Metcash and key retail groups, in conjunction with the AFGC, to FSANZ (Food Standards Australia New Zealand). It was agreed by FSANZ to amend these proposed changes and make more practical guidelines for all delicatessens, meats, seafood and bakery displays.

Food Safety Standards

Metcash sites continue to implement best practice HACCP (Hazard Analysis and Critical Control Points) based Food Safety Programs. All new warehouse sites and stores acquired under the FAL merger have been reviewed and improvement areas identified. All retail store department managers of new corporately owned sites have begun undergoing full training on new food safety requirements while aiming to have HACCP certifications by the end of October 2006.

Technical services audits and third party audits conducted since January 2006's report have confirmed that no pre-existing Metcash site is operating below legislative food safety standards. Metcash warehouses have zero outstanding major non-conformances.

REMUNERATION REPORT

This report outlines the remuneration arrangements for Directors and executives of Metcash Limited (the Company).

Remuneration & Nomination Committee

Role

The Remuneration & Nomination Committee of the Board of Directors is responsible for determining and reviewing compensation arrangements for the Directors, the Chief Executive Officer (CEO) and the senior executive team.

The principal responsibilities of the Committee (which are available on the Company's web site) are to:

1. review and advise the Board annually on the remuneration and components of remuneration for the Chief Executive Officer and executives reporting directly to the Chief Executive Officer;
2. review management's recommendation and advise the Board on performance linked compensation packages for management staff, Directors' and executives' retirement, pension and superannuation schemes, and employee participation schemes, including executive share and share option plans and employee share plans;
3. oversee the administration of the Metcash Employees Option Plan and exercise the Board's discretionary power when required;
4. advise the Board on directorship appointments, and implement processes to assess the Board and its committees, review the Board's required status, experience, mix of skills, and other qualities, including gender, and provide a Directors' orientation and education program;
5. regularly evaluate and advise the Board on the performance of the Chief Executive Officer;
6. advise the Board on the successor to the Chief Executive Officer; and
7. assess the effectiveness of the Board as a whole and its committees as set out in Section 7 of the Metcash Board Charter.

The Remuneration & Nomination Committee assesses the appropriateness of the nature and amount of remuneration of Directors and senior executives on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality Board and executive team.

Compensation structure

In accordance with best practice corporate governance, the structure of Non-Executive Director and senior executive remuneration is separate and distinct.

Non-Executive Director compensation

Aggregate Directors' remuneration is determined from time to time at a general meeting. The current limit, $1,000,000, was agreed by members at the 1 September 2005 Annual General Meeting.

Non-Executive Directors are paid an annual fee which is periodically reviewed. The Remuneration & Nomination Committee has responsibility for reviewing and recommending the level of remuneration for Non-Executive Directors in relation to Board and committee dates. External professional advice is sought before any changes are made to the amount paid to Directors within the overall maximum amount approved by shareholders. Additional amounts are paid to the Chairman and Deputy Chairman to recognise the responsibilities involved with those positions. Directors performing committee duties are paid additional fees. The current fees were based on independent advice.

Non-Executive Directors do not receive bonuses, and are not entitled to participate in the Company's share option scheme.

A retirement benefit was paid to Non-Executive Directors for past service. The benefits were in accordance with Section 8.3(h) and (i) of the Company's Constitution and Section 200 of the Corporations Law.

The retirement benefit scheme was discontinued as at the date of the 2005 Annual General Meeting and accrued benefits (as shown below) were frozen at that time. Directors' fees were increased based on independent advice to reflect the cessation of this benefit.

Accrued benefits	$
A E Harris, AC	301,882
R A Longes	211,619
P L Barnes	211,619
	$725,120

Senior Executive and Executive Director compensation

The Remuneration & Nomination Committee recognises that the Group operates in a very competitive environment and that its performance depends on the quality of its people. To continue to prosper, the Group must be able to attract, motivate and retain highly skilled executives.

The guiding principles of the Group's remuneration policy are to:

- provide competitive rewards to attract and retain executive talent;
- apply demanding Key Performance Indicators to deliver results across the Group and to a significant portion of the total reward;
- link rewards to executives to the creation of value to shareholders;
- assess and reward executives using financial and non-financial measures of performance;
- ensure remuneration arrangements between executives are equitable and facilitate the deployment of human resources around the Group; and
- limit severance payments on termination to pre-established contractual arrangements which do not commit the Group to making unjustified payments in the event of non-performance.

Advisors

The Chief Executive Officer and the Chief Human Resources Officer have assisted the Committee in its deliberations during the year. In addition, independent advisors were retained to provide assistance and advice on market-related remuneration and short, medium and long-term incentives.

Service contracts

Service contracts exist for senior executives including the Chief Executive Officer. They are unlimited in term but capable of termination on 15 months notice in the case of the Chief Executive Officer and 9 months notice in the case of executives who are direct reports to the Chief Executive Officer. The Group retains the right to terminate a contract immediately, by making payments equal to the notice period, in lieu of notice. In addition, should termination be as a result of redundancy, a further payment of 9 months of fixed remuneration (base salary plus superannuation) is payable to the Chief Executive Officer and 6 months further payment to Executives who are direct reports to the Chief Executive Officer.

The Chief Executive Officer and Executives who are direct reports to the Chief Executive Officer, may terminate their employment by giving 3 months notice.

The service contracts typically outline the components of remuneration paid to Executives, but do not prescribe how remuneration levels are reviewed each year to take account of cost-of-living changes, any change in the scope of the role performed by the executive and any changes required to meet the principles of the remuneration policy.

Remuneration is divided into two components. The first is the fixed or base component, which is made up of base salary and superannuation benefits. The second is the 'at risk' component, which is subject to Key Performance Indicators (KPIs) and performance hurdles and is generally made up of short, medium and long-term incentives that take the form of cash payments and/or participation in the equity plans. The amount of 'at risk' remuneration, if any, that is earned by an executive is wholly dependent on that executive's and the Group's performance against those pre-determined KPIs and performance hurdles.

Fixed remuneration

Base salary and benefits

Base salaries are determined by reference to the scope and nature of the individual's role and their performance and experience. Market data is used to benchmark salary levels. Particular consideration is given to competitive remuneration levels and the need to retain talent.

Superannuation benefits

Superannuation benefits are delivered in accordance with the Federal Government's Superannuation Guarantee Levy, which currently sits at 9% of fixed remuneration to a maximum of $153,647 p.a. and for amounts above that at a flat $12,696 p.a.

At risk remuneration

At risk remuneration is delivered as short, medium and long-term incentives and applies to the Group's senior management, which includes the Company Secretary and assuming that maximum bonuses are earned, 50% of short-term income is at risk. The components of the at risk remuneration are as follows:

- Executive management bonus scheme (short-term incentive). This scheme delivers a maximum of 50% of fixed remuneration subject to achievement of pre-determined KPIs relating to Business Pillar and/or Group financial and individual performance.
- Synergy Gains Incentive Plan (medium-term incentive). This plan has a fixed life and delivers a maximum of 50% of fixed remuneration subject to achievement of specific and pre-determined synergies associated with the FAL integration over 2 years.
- Options plan (long-term incentive). This plan delivers share options to individuals and is subject to achievement of performance hurdles for Executive Directors based on increase in earnings per share. The Company's policy is that unexercised options cannot be 'hedged'.
- The Board has approved an additional long-term incentive payment of $5,000,000 to the Chief Executive Officer and $2,000,000 to each of the Chief Financial Officer, Group Merchandising Director, CEO of IGA Distribution and the Chief Information Officer subject to achievement of specific hurdles over a 5-year period (a compounding 12.5% increase in earnings per share based on 2005 earnings per share adjusted for material changes to the number of shares issued) and only payable on successful achievement of the hurdles in 2011 and if the executive is still employed by the Company at that time.

Earnings per share growth has been selected as the performance measure for long-term incentives as it directly relates to the performance of the Company and is not distorted by external influences.

The performance hurdle for options issued to Executive Directors in 2005, as agreed by members at the Annual General Meeting held on 1 September 2005, was that, in each of the years in which options became available for exercise, earnings per share for the financial year preceding the tranche exercise date must be at least equal to a 12.5% annual increase of earnings per share compounded from the 2005 earnings per share, adjusted for any dilution that might occur as a consequence of any alteration to the number of ordinary shares issued.

Before options are exercised by Executive Directors, agreement is obtained from the Remuneration & Nomination Committee, which verifies that the hurdle has been achieved with confirmation obtained from the Company's external auditor.

Performance hurdles have not been applied to options issued to the key management executives as they do not have the ability to influence the performance of the Company to the same degree as Executive Directors. They also generally are offered a smaller number of options than Executive Directors. The employee option scheme applies to all of the Company's employees and it is not considered practicable for hurdles to apply in all instances. The cut-off for hurdles selected by the Company is at the Executive Director level.

At risk remuneration and Company performance

The at risk remuneration, with the short-term focus on sales and profit and the long-term segment influenced by earnings per share and share price, has contributed to the growth in the shareholder returns as identified in another part of the Directors' Report.

DIRECTORS' REPORT

Details of Key Management Personnel

Directors		*Executives*	
Carlos S dos Santos	Non-Executive Chairman	Ken Bean	CEO Group Logistics and Corporate Development
A E (Ted) Harris, AC	Non-Executive Deputy Chairman	Peter Dubbelman	CEO Campbells Wholesale
Andrew Reitzer	Chief Executive Officer	John Randall	General Manager Finance and Company Secretary
Bernard J Hale	Chief Information Officer	David Johnston	Chief Human Resources Officer
Mike Jablonski	Group Merchandise Director	Gary Tempany	National Group Manager Merchandise and Marketing
Edwin M Jankelowitz	Finance Director		
Lou Jardin	CEO IGA Distribution		
Richard A Longes	Non-Executive Director		
V Dudley Rubin	Non-Executive Director		
Mike Wesslink	CEO Australian Liquor Marketers		
Peter L Barnes	Non-Executive Director		
Bruce A Hogan, AM	Non-Executive Director (appointed 23 November 2005)		

Compensation of Key Management Personnel*

Compensation for Key Management Personnel for the year ended 30 April 2006

	Short-Term			Post Employment		Share-Based Payments	Total	Total Performance-Related (%)
	Salary and Fees	Bonus	Non-Monetary Benefits	Superannuation	Retirement Benefits	Options Granted		
Directors								
C dos Santos	252,887	–	–	12,140	–	–	265,027	–
A E Harris	190,211	–	–	–	–	–	190,211	–
R Longes	166,399	–	–	12,128	–	–	178,527	–
P Barnes	123,899	–	–	11,003	–	–	134,902	–
D Rubin	115,568	–	–	10,401	–	–	125,969	–
B Hogan	72,709	–	–	–	–	–	72,709	–
A Reitzer	1,287,932	531,200	–	100,587	–	231,910	2,151,629	35.47
M Jablonski	544,403	289,571	23,000	12,140	–	125,618	994,332	41.76
B Hale	387,507	241,823	–	96,140	–	364,930	1,090,400	55.65
E Jankelowitz	572,626	292,383	–	12,140	–	125,618	1,002,767	41.68
M Wesslink	431,489	216,095	–	48,724	–	125,618	821,926	41.57
L Jardin	537,944	289,571	23,000	18,199	–	125,618	994,332	41.76
Executives								
K Bean	393,416	237,777	–	81,950	–	46,996	760,140	37.46
J Randall	326,276	210,000	–	93,724	–	46,996	676,996	37.96
P Dubbelman	386,362	224,961	23,000	40,560	–	46,996	721,879	37.67
D Johnston	338,559	188,703	–	38,848	–	46,996	613,106	38.44
G Tempany	314,192	175,000	19,000	16,808	–	17,623	542,623	35.50
	6,441,977	2,897,085	88,000	605,492	–	1,304,919	11,337,474	37.06

* The disclosures marked with an asterix have been included within the remuneration report and audited in accordance with the exemption under Corporation Amendments Regulations 2006.

Compensation of Key Management Personnel for the year ended 30 April 2005

	Short-Term			Post Employment		Share-Based Payments	Total	Total Performance-Related (%)
	Salary and Fees	Bonus	Non-Monetary Benefits	Superannuation	Retirement Benefits	Options Granted		
Directors								
C S dos Santos	–	–	–	–	–	–	–	–
A E Harris	108,901	–	–	–	–	–	108,901	–
R Longes	71,703	–	–	6,454	–	–	78,157	–
P Barnes	71,703	–	–	6,454	–	–	78,157	–
D Rubin	–	–	–	–	–	–	–	–
B Hogan	–	–	–	–	–	–	–	–
A Reitzer	1,151,540	343,325	2,669	84,947	–	–	1,582,481	21.70
M Jablonski	523,324	74,970	23,000	11,488	–	–	632,782	11.85
B Hale	848,831	62,608	–	10,522	–	140,000	933,594	19.08
J E Jankelowitz	546,324	74,970	–	11,488	–	–	632,782	11.85
M Wesslink	415,320	31,233	–	48,072	–	–	494,625	6.31
L Jardin	488,620	85,120	135,846	17,547	–	–	727,133	11.71
Executives								
K Bean	379,119	65,523	45,904	33,769	–	–	524,315	12.50
J Randall	324,222	53,901	–	78,072	–	–	456,195	11.82
P Dubbelman	371,277	60,969	–	81,002	–	–	513,248	11.88
D Johnston	338,930	49,094	–	26,912	–	–	414,936	11.83
G Tempany	261,569	37,359	19,000	16,156	–	–	334,084	11.18
	5,901,383	939,072	226,419	432,833	–	140,000	7,639,757	14.12

*Options granted as part of remuneration**

	Grant date	Grant number	Value per option at grant date	Value of options granted during the year	Value of options exercised during the year	Total value of options granted and exercised during the period	Remuneration consisting of options for the year %
A Reitzer	1 Sep 2005	1,200,000	1.27	1,524,000	1,085,960	2,609,960	11.24
M Jablonski	1 Sep 2005	650,000	1.27	825,500	1,621,120	2,446,620	12.63
E Jankelowitz	1 Sep 2005	650,000	1.27	825,500	1,653,420	2,478,920	12.53
L Jardin	1 Sep 2005	650,000	1.27	825,500	1,485,720	2,311,220	12.71
K Bean	1 Sep 2005	400,000	1.30	520,000	1,433,300	1,953,300	6.81
M Wesslink	1 Sep 2005	650,000	1.27	825,500	552,860	1,378,360	16.00
B Hale	1 Sep 2005	650,000	1.27	825,500	–	825,500	60.29
J Randall	1 Sep 2005	400,000	1.30	520,000	216,296	736,296	7.89
P Dubbelman	1 Sep 2005	400,000	1.30	520,000	1,063,040	1,583,040	6.78
D Johnston	1 Sep 2005	400,000	1.30	520,000	610,080	1,130,080	8.58
G Tempany	1 Sep 2005	150,000	1.30	195,000	91,152	286,152	3.28

* The disclosures marked with an asterix have been included within the remuneration report and audited in accordance with the exemption under Corporation Amendments Regulations 2006.

*Compensation options: Granted and vested during the year**

				Terms and Conditions		For each grant		
30 April 2006	Vested number	Granted number	Grant date	Fair value per option at grant date (per note 15)	Exercise price per option (per note 15)	Expiry date	First exercise date	Last exercise date
Directors								
A Reitzer	340,000	1,200,000	1 Sep 05	1.27	4.01	1 Sep 11	1 Sep 08	1 Sep 11
M Jablonski	170,000	650,000	1 Sep 05	1.27	4.01	1 Sep 11	1 Sep 08	1 Sep 11
B Hale	–	650,000	1 Sep 05	1.27	4.01	1 Sep 11	1 Sep 08	1 Sep 11
E Jankelowitz	170,000	650,000	1 Sep 05	1.27	4.01	1 Sep 11	1 Sep 08	1 Sep 11
M Wesslink	220,000	650,000	1 Sep 05	1.27	4.01	1 Sep 11	1 Sep 08	1 Sep 11
L Jardin	200,000	650,000	1 Sep 05	1.27	4.01	1 Sep 11	1 Sep 08	1 Sep 11
Executives								
P Dubbelman	80,000	400,000	1 Sep 05	1.30	3.925	1 Sep 11	1 Sep 08	1 Sep 11
K Bean	80,000	400,000	1 Sep 05	1.30	3.925	1 Sep 11	1 Sep 08	1 Sep 11
D Johnston	80,000	400,000	1 Sep 05	1.30	3.925	1 Sep 11	1 Sep 08	1 Sep 11
J Randall	32,000	400,000	1 Sep 05	1.30	3.925	1 Sep 11	1 Sep 08	1 Sep 11
G Tempany	12,000	150,000	1 Sep 05	1.30	3.925	1 Sep 11	1 Sep 08	1 Sep 11
	1,384,000	6,200,000						
30 April 2005								
Directors								
A Reitzer	340,000	–	–	–	–	–	–	–
M Jablonski	510,000	–	–	–	–	–	–	–
B Hale	–	850,000	2 Sep 04	0.97	2.43	1 Sep 10	1 Sep 07	1 Sep 10
E Jankelowitz	510,000	–	–	–	–	–	–	–
M Wesslink	240,000	–	–	–	–	–	–	–
L Jardin	240,000	–	–	–	–	–	–	–
Executives								
P Dubbelman	240,000	–	–	–	–	–	–	–
K Bean	240,000	–	–	–	–	–	–	–
D Johnston	240,000	–	–	–	–	–	–	–
J Randall	36,000	–	–	–	–	–	–	–
G Tempany	36,000	–	–	–	–	–	–	–
	2,632,000	850,000						

* The disclosures marked with an asterix have been included within the remuneration report and audited in accordance with the exemption under Corporation Amendments Regulations 2006.

*Details of bonus provided for in year ended 30 April 2006**

	Potential bonus	Bonus payable	Bonus forfeited
Directors			
C S dos Santos	–	–	–
A E Harris	–	–	–
R Longes	–	–	–
P Barnes	–	–	–
D Rubin	–	–	–
B Hogan	–	–	–
M Wesslink	240,105	216,096	24,009
B Hale	241,823	241,823	–
A Reitzer	650,000	531,200	118,800
M Jablonski	289,571	289,571	–
E Jankelowitz	292,383	292,383	–
L Jardin	289,571	289,571	–
Executives			
K Bean	237,778	237,778	–
J Randall	210,000	210,000	–
P Dubbelman	224,961	224,961	–
D Johnston	188,703	188,703	–
G Tempany	175,000	175,000	–

All bonuses for the year ended 30 April 2006 were paid either in December 2005, June or July 2006.

*Details of bonus provided for in year ended 30 April 2005**

Directors			
C S dos Santos	–	–	–
A E Harris	–	–	–
R Longes	–	–	–
P Barnes	–	–	–
D Rubin	–	–	–
B Hogan	–	–	–
M Wesslink	117,125	31,233	85,892
B Hale	117,390	62,608	54,782
A Reitzer	619,578	343,325	276,253
M Jablonski	140,569	74,970	65,599
E Jankelowitz	140,569	74,970	65,599
L Jardin	133,750	89,166	44,584
Executives			
K Bean	114,316	60,969	53,347
J Randall	101,064	53,901	47,163
P Dubbelman	109,204	65,522	43,682
D Johnston	92,051	49,094	42,957
G Tempany	74,718	37,359	37,359

All bonuses for the year ended 30 April 2005 were paid in either December 2004 or June 2005.

*Compensation by category**

	Metcash Group	
	2006 $	**2005 $**
Short-Term	**9,427,063**	7,066,874
Post Employment	**605,492**	432,883
Other Long-Term	–	–
Termination Benefits	–	–
Share-Based Payments	**1,304,919**	140,000
Total	**11,337,474**	7,639,757

* The disclosures marked with an asterix have been included within the remuneration report and audited in accordance with the exemption under Corporation Amendments Regulations 2006.

DIRECTORS' REPORT

YEAR ENDED 30 APRIL 2006

SHARE OPTIONS

Unissued shares

As at the date of this report, there were 21,401,792 unissued ordinary shares under option (21,518,292 at the reporting date). Refer to note 15 of the financial statements for further details of the options outstanding.

Shares issued as a result of options

During the financial year, employees and executives have exercised options to acquire 5,782,946 fully paid ordinary shares in Metcash Limited at a weighted average exercise price of $1.14. Since the end of the financial year, a further 116,500 options have been exercised, at a weighted average exercise price of $1.23.

CEO AND CFO DECLARATION

The Chief Executive Officer and Chief Financial Officer have provided a declaration which states:

(a) With regard to the integrity of the financial report of Metcash Limited for the period to 30 April 2006:

- (i) The financial statements and associated notes comply in all material respects with the accounting standards as required by Section 296 of the Corporations Act 2001;
- (ii) The financial statements and associated notes give a true and fair view, in all material respects, of the financial position as at 30 April 2006 and performance of the Company for the period months then ended as required by Section 297 of the Corporations Act 2001;
- (iii) In our opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

(b) With regard to the financial records and systems of risk management and internal compliance and control of Metcash Limited for the period ended 30 April 2006:

- (i) The financial records of the Company have been properly maintained in accordance with Section 286 of the Corporations Act 2001;
- (ii) The statements made in (a) above regarding the integrity of the financial statements are founded on a sound system of risk management and internal compliance and control which, in all material respects, implements the policies adopted by the Board of Directors;
- (iii) The risk management and internal compliance and control systems of the Company relating to financial reporting, compliance and operations objectives are operating efficiently and effectively, in all material respects.
- (iv) Subsequent to 30 April 2006, no changes or other matters have arisen that would have a material effect on the operation of risk management and internal control and control systems of the Company.

AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration for the year ended 30 April 2006 has been received and can be found on page 94 of the financial report.

NON-AUDIT SERVICES

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

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

Tax compliance	$716,000
Assurance-related	$20,000
Other services	$29,000

Signed in accordance with a resolution of the Directors.

Andrew Reitzer
Director

Sydney, 17 July 2006

INCOME STATEMENT

FOR THE YEAR ENDED 30 APRIL 2006

		Metcash Group		Metcash Limited	
	Notes	2006 $'000	2005 $'000	2006 $'000	Period ending 30 April 2005 $'000
Revenue	4	8,251,646	7,044,780	31,008	–
Cost of sales		(7,406,154)	(6,398,120)	–	–
Gross profit		845,492	646,660	31,008	–
Other income	4	–	9,643	–	–
Distribution costs		(368,468)	(225,934)	–	–
Administrative costs		(254,856)	(228,348)	(3,260)	(16)
Share of profit of associates		3,356	273	–	–
Restructure costs		(17,267)	–	–	–
Finance costs					
CULS redemption premium		(20,940)	(7,100)	–	–
CULS issue costs		(6,003)	(1,998)	–	–
CUPS redemption premium		(2,557)	–	–	–
Other finance costs	4	(45,271)	(8,050)	–	–
Profit before income tax		133,486	185,146	27,748	(16)
Income tax expense	5	(52,308)	(58,303)	–	–
Net profit for period		81,178	126,843	27,748	(16)
Profit attributable to the members of the parent company		81,178	126,843	27,748	(16)
Earnings per share (cents per share)					
– basic earnings per share	28	13.67	29.68	–	–
– diluted earnings per share	28	13.52	28.10	–	–
– franked dividends paid per share	6	11.50	9.50	–	–

BALANCE SHEET

AS AT 30 APRIL 2006

		Metcash Group		Metcash Limited	
	Notes	2006 $'000	2005 $'000	2006 $'000	2005 $'000
ASSETS					
Current assets					
Cash and cash equivalents	7	**220,199**	189,607	**–**	–
Trade and other receivables	8	**866,024**	648,006	**265,090**	–
Inventories	9	**534,995**	385,474	**–**	–
Prepayments		**4,334**	4,163	**–**	–
		1,625,552	1,227,250	**265,090**	–
Assets classified as held for sale	29	**185,505**	206	**–**	–
Total current assets		**1,811,057**	1,227,456	**265,090**	–
Non-current assets					
Receivables	10	**8,019**	29,814	**–**	–
Investments in associates	11	**50,171**	2,450	**–**	–
Other financial assets	12	**227**	4,121	**2,242,229**	2,242,229
Property, plant and equipment	13	**147,220**	77,014	**–**	–
Deferred tax assets	5	**36,592**	29,027	**–**	–
Intangible assets and goodwill	14	**1,050,734**	326,100	**–**	–
Total non-current assets		**1,292,963**	468,526	**2,242,229**	2,242,229
TOTAL ASSETS		**3,104,020**	1,695,982	**2,507,319**	2,242,229
LIABILITIES					
Current liabilities					
Trade and other payables	16	**1,175,468**	826,879	**–**	906,621
Interest-bearing loans and borrowings	17	**5,810**	7,995	**–**	–
Income tax payable		**17,984**	22,156	**8,525**	–
Provisions	18	**33,081**	30,977	**–**	–
		1,232,343	888,007	**8,525**	906,621
Liabilities directly associated with assets classified as held for sale	29	**49,655**	–	**–**	–
Total current liabilities		**1,281,998**	888,007	**8,525**	906,621
Non-current liabilities					
Interest-bearing loans and borrowings	17	**751,299**	341,248	**–**	–
Convertible, redeemable, subordinated, unsecured loan notes (CULS)	17	**–**	375,080	**–**	–
Convertible undated preference shares (CUPS)	17	**–**	50,000	**–**	–
Deferred tax liabilities	5	**10,623**	18,344	**–**	–
Provisions	18	**27,233**	18,838	**–**	–
Total non-current liabilities		**789,155**	803,510	**–**	–
TOTAL LIABILITIES		**2,071,153**	1,691,517	**–**	906,621
NET ASSETS		**1,032,867**	4,465	**2,498,794**	1,335,608
EQUITY					
Contributed equity	19	**1,823,895**	846,976	**2,495,518**	1,335,608
Other equity		**(765,923)**	(765,923)	**3,276**	16
Reserves	19	**12,200**	14,163	**–**	–
Retained earnings	19	**(37,305)**	(90,751)	**–**	(16)
TOTAL EQUITY		**1,032,867**	4,465	**2,498,794**	1,335,608

STATEMENT OF CHANGES IN EQUITY

YEAR ENDED 30 APRIL 2006

		Metcash Group						
	Notes	Contributed equity $'000	Other equity $'000	Share-based payments $'000	Retained Earnings $'000	Capital Reserve $'000	Foreign Currency Translation Reserve $'000	Total equity $'000
At 1 May 2004		562,163	–	37	(111,294)	12,777	(185)	463,498
Prior period error adjustments	2 (xxvii)	–	–	–	(3,376)	–	–	(3,376)
Adjusted balance at 1 May 2004		562,163	–	37	(114,670)	12,777	(185)	460,122
Exercise of options		5,399	–	–	–	–	–	5,399
Issue of share capital		279,414	–	–	–	–	–	279,414
Cost of share-based payment		–	–	187	–	–	–	187
Reverse acquisition		–	(765,923)	–	–	–	–	(765,923)
Currency translation differences		–	–	–	–	–	1,347	1,347
Profit for the period		–	–	–	128,287	–	–	128,287
Total income/expense for the period		–	–	–	128,287	–	1,347	129,634
Dividends		–	–	–	(102,924)	–	–	(102,924)
At 30 April 2005		846,976	(765,923)	224	(89,307)	12,777	1,162	5,909
Prior period error adjustments	2 (xxvii)	–	–	–	(1,444)	–	–	(1,444)
Adjusted balance at 30 April 2005		846,976	(765,923)	224	(90,751)	12,777	1,162	4,465
Exercise of options		6,201	–	–	–	–	–	6,201
Issue of share capital		970,718	–	–	–	–	–	970,718
Cost of share-based payment		–	–	3,260	–	–	–	3,260
Currency translation differences		–	–	–	–	–	(5,223)	(5,223)
Profit for the period		–	–	–	81,178	–	–	81,178
Total income/expense for the period		–	–	–	81,178	–	(5,223)	75,955
Dividends		–	–	–	(27,732)	–	–	(27,732)
At 30 April 2006		**1,823,895**	**(765,923)**	**3,484**	**(37,305)**	**12,777**	**(4,061)**	**1,032,867**

STATEMENT OF CHANGES IN EQUITY

YEAR ENDED 30 APRIL 2006

	Metcash Limited			
	Contributed equity $'000	Share-based payments $'000	Retained Earnings $'000	Total equity $'000
At 1 May 2004	–	–	–	–
Conversion of shares from Metcash Trading Limited at $3.27 per share	1,152,618	–	–	1,152,618
Conversion of CULS	182,990	–	–	182,990
Cost of share-based payment	–	16	–	16
Loss for the period	–	–	(16)	(16)
Total income/expense for the period	–	–	(16)	(16)
At 30 April 2005	1,335,608	16	(16)	1,335,608
Exercise of options	6,201	–	–	6,201
Issue of share capital	970,718	–	–	970,718
Conversion of CULS	182,991	–	–	182,991
Cost of share-based payment	–	3,260	–	3,260
Profit for the period	–	–	27,748	27,748
Total income/expense for the period	–	–	27,748	27,748
Dividends	–	–	(27,732)	(27,732)
At 30 April 2006	**2,495,518**	**3,276**	**–**	**2,498,794**

CASH FLOW STATEMENT

YEAR ENDED 30 APRIL 2006

	Notes	Metcash Group 2006 $'000	Metcash Group 2005 $'000	Metcash Limited 2006 $'000	Metcash Limited Period ending 30 April 2005 $'000
Cash from operating activities:					
Receipts from customers		9,479,154	8,281,009	–	–
Payments to suppliers and employees		(9,012,845)	(7,994,639)	–	–
Income taxes paid		(77,523)	(54,271)	–	–
GST paid		(109,654)	(100,007)	–	–
Dividends received		781	–	–	–
Borrowing costs		(41,997)	(8,050)	–	–
Interest received		4,757	6,595	–	–
Total cash from operating activities	7	242,673	130,637	–	–
Cash flows from investing activities:					
Proceeds from sale of plant and equipment		2,297	9,643	–	–
Proceeds from sale of investment		20	–	–	–
Proceeds from sale of businesses		380	–	–	–
Payment on acquisition of businesses	27	(55,679)	(1,083,961)	–	(1,097,503)
Purchase of property, plant and equipment		(50,264)	(32,238)	–	–
Payment on acquisition of associates		(45,990)	–	–	–
Payment of deferred acquisition costs		–	(3,941)	–	–
Loan (to)/from other entities		–	(40,159)	(2,949)	1,097,503
Loans to related parties – proceeds from repayments		59	–	–	–
Net cash used by investing activities		(149,177)	(1,150,656)	(2,949)	–
Cash flows from financing activities:					
Proceeds from the issue of ordinary shares		34,324	295,852	37,584	–
Proceeds/(Repayment) of CULS		(401,913)	747,747	–	–
Proceeds/(Repayment) of CUPS		(52,557)	50,000	–	–
Proceeds from borrowings – other		565,000	525,000	–	–
Repayments of borrowings – other		(150,000)	(305,876)	–	–
Repayment of financing facilities		(11,000)	–	–	–
Payment of finance lease principal		(9,011)	(7,000)	–	–
Payment of funding costs		(7,449)	(26,824)	(6,903)	–
Payment of dividends on ordinary shares		(27,732)	(102,924)	(27,732)	–
Net cash used by financing activities		(60,338)	1,175,975	2,949	–
Net cash increase (decrease) in cash and cash equivalents		33,158	155,956	–	–
Cash and cash equivalents at beginning of year		189,607	33,651	–	–
Effect of exchange rate changes on cash		(2,566)	–	–	–
Cash and cash equivalents at end of year	7	220,199	189,607	–	–

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 APRIL 2006

1 CORPORATE INFORMATION

The financial report of Metcash Limited (the Company) for the year ended 30 April 2006 was authorised for issue in accordance with a resolution of the Directors on 17 July 2006.

Metcash Limited is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Stock Exchange. The nature of the operations and principal activities of the Group are described in the Directors' Report.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(i) Basis of accounting

The financial report is a general purpose financial report which has been prepared in accordance with the requirements of the Corporations Act 2001 and Australian Accounting Standards.

The financial report has been prepared using the historical cost basis, except for available for sale investments, which have been measured at fair value.

The financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars ($'000) unless otherwise stated under the option available to the Company under ASIC Class Order 98/100. The Company is an entity to which the class order applies.

(ii) Transition to AIFRS

(a) Statement of Compliance

The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards (IFRS).

This is the first financial report prepared based on AIFRS and comparatives for the year ended 30 April 2005 have been restated accordingly. A summary of the significant accounting policies of the Group under AIFRS are disclosed in the notes below.

Reconciliation of:

- AIFRS equity as at 1 May 2004 (the date of transition to AIFRS) and 30 April 2005; and
- AIFRS profit for the period ended 30 April 2005,

to the figures reported in the 30 April 2005 full year financial report prepared under AGAAP are detailed in note 26.

(b) AASB 1 transition exemptions

The Group has made its election in relation to the transitional exemptions allowed by AASB 1 *First-Time Adoption of Australian Equivalents to International Financial Reporting Standards* (AIFRS) as follows:

Business combinations

AASB 3 *Business Combinations* was not applied retrospectively to past business combinations (i.e. business combinations that occurred before the date of transition to AIFRS).

Share-based payment transactions

AASB 2 *Share-Based Payments* is applied only to equity instruments granted after 7 November 2002 that had not vested on or before 1 May 2005.

Exemption from the requirement to restate comparative information for AASB 132 and AASB 139

The Group has not elected to adopt this exemption and has applied AASB 132 *Financial Instruments: Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement* to its comparative information.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Standards issued but not yet effective

Except for the revised AASB 119 *Employee Benefits* (issued December 2005), Australian Accounting Standards that have recently been issued or amended but are not yet effective have not been adopted for the annual reporting period ending 30 April 2006:

AASB Amendment	Affected Standards	Nature of change to accounting policy	Application date of standard*	Application date for Group
2005-1	AASB 139 *Financial Instruments: Recognition and Measurement*	No change to accounting policy required. Therefore no impact.	1 Jan 2006	1 May 2006
2005-5	AASB 1 *First-Time Adoption of AIFRS*, AASB 139 *Financial Instruments: Recognition and Measurement*	No change to accounting policy required. Therefore no impact.	1 Jan 2006	1 May 2006
2005-6	AASB 3 *Business Combinations*	No change to accounting policy required. Therefore no impact.	1 Jan 2006	1 May 2006
2005-10	AASB 132 *Financial Instruments: Disclosure and Presentation*, AASB 101 *Presentation of Financial Statements*, AASB 114 *Segment Reporting*, AASB 117 *Leases*, AASB 133 *Earnings per Share*, AASB 139 *Financial Instruments: Recognition and Measurement*	No change to accounting policy required. Therefore no impact.	1 Jan 2007	1 May 2007
New standard	AASB 7 *Financial Instruments: Disclosures*	No change to accounting policy required. Therefore no impact.	1 Jan 2007	1 May 2007
2006-1	AASB 121 *The Effects of Changes in Foreign Exchange Rates*	No change to accounting policy required. Therefore no impact.	31 Dec 2006	30 Apr 2007

* Application date is for the annual reporting periods beginning on or after the date shown in the above table, except for 2006-1 where the application date is for the annual reporting periods ending on or after the date shown in the above table.

The following amendments are not applicable to the Group and therefore have no impact.

AASB Amendment	Affected Standards
2005-2	AASB 1023 *General Insurance Contracts*
2005-4	AASB 139 *Financial Instruments: Recognition and Measurement*, AASB 132 *Financial Instruments: Disclosure and Presentation*, AASB 1 *First-Time Adoption of AIFRS*, AASB 1023 *General Insurance Contracts* and AASB 1028 *Life Insurance Contracts*
2005-9	AASB 4 *Insurance Contracts*, AASB 1023 *General Insurance Contracts*, AASB 139 *Financial Instruments: Recognition and Measurement* and AASB 132 *Financial Instruments: Disclosure and Presentation*
2005-12	AASB 1038 *Life Insurance Contracts* and AASB 132 *Financial Instruments: Disclosure and Presentation*
2005-13	AASB 25 *Financial Reporting by Superannuation Plans*
2006-2	AASB 1 *First-Time Adoption of AIFRS*

(iii) Basis of consolidation

The consolidated financial statements comprise the financial statements of Metcash Limited and its subsidiaries as at 30 April 2006.

The financial statements of subsidiaries are prepared for the same reporting period as the parent entity, using consistent accounting policies.

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

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

The acquisition of Foodland Associated Limited (FAL) on 2 November 2005 has been accounted for using the purchase method of accounting. The purchase method of accounting involves allocating the cost of the business combination to the fair value of the assets acquired and the liabilities and contingent liabilities assumed at the date of acquisition. Accordingly, the consolidated financial statements include the results of FAL for the 6-month period from its acquisition on 2 November 2005.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(iv) Reverse acquisition

In accordance with AASB 3 *Business Combinations*, when Metcash Limited (the legal parent) acquired the Metoz group (being Metoz Holdings Limited and its controlled entities including Metcash Trading Limited) (the legal subsidiary), the acquisition was deemed to be a reverse acquisition since the substance of the transaction is that the existing public shareholders of Metcash Trading Limited have, through Metcash Limited, effectively acquired Metoz Holdings. Under reverse acquisition accounting, the consolidated financial statements are prepared as if Metcash Trading Limited had acquired Metcash Limited and its controlled entities, not vice versa as represented by the legal position.

On consolidation by Metcash Limited, no goodwill arises on the acquisition by Metcash Limited of the Metoz Holdings shares and the amount paid in cash by Metcash Limited to Metoz Holdings shareholders for their shares will be eliminated against shareholder equity.

As a consequence:

- an exercise is performed to fair value the assets and liabilities of the legal acquirer, Metcash Limited;
- the cost of investment held by the legal parent (Metcash Limited) in the legal subsidiary (Metoz Group) is eliminated on consolidation against the consolidated equity and reserves of Metcash Trading Limited and its consolidated entities. The effect of this is to restate the consolidated equity and reserves balances to reflect those of Metcash Trading Limited at the date of acquisition;
- the number of shares disclosed by the consolidated entity are those of Metcash Limited whilst the value of shares disclosed by the consolidated entity are those of Metcash Trading Limited; and
- the consolidated financial statements are issued under the name of the legal parent (Metcash Limited) but are a continuation of the financial statements of the deemed acquirer under the reverse acquisition rules (Metcash Trading Limited).

(v) Significant accounting judgements, estimates and assumptions

(i) Significant accounting judgements

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

Contractual customer relationships

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

(ii) Significant accounting estimates and assumptions

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

Impairment of goodwill

The Group determines whether goodwill is impaired on an annual basis. This requires an estimation of the recoverable amount of the cash generating units to which the goodwill is allocated.

The assumptions used in this estimation of recoverable amount and the carrying amount of goodwill is discussed in note 14.

Share-based payment transactions

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined using a binomial model, using the assumptions detailed in note 15.

Contractual customer relationships

The useful life of contractual customer relationships of 25 years is based on management's expectation of future attrition rates based on historical rates experienced.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(vi) Foreign currency translation

Translation of foreign currency transactions

Both the functional and presentation currency of Metcash Limited and its Australian subsidiaries is Australian dollars (A$).

Transactions in foreign currencies are initially recorded in the functional currency at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All exchange differences in the consolidated financial report are taken to profit or loss.

Translation of financial reports of overseas operations

The functional currency of the overseas subsidiaries is as follows:

- Tasman Liquor Company Limited is New Zealand dollars.
- Metoz Holdings Limited is South African Rand.
- Pinnacle Holdings Limited is British Pounds Sterling.
- Soetensteeg 2–61 Exploitatiemaatschappij BV is Euros.
- Wickson Corporation NV is Euros.

As at the reporting date the assets and liabilities of the overseas subsidiaries are translated into the presentation currency of Metcash Limited at the rate of exchange ruling at the balance sheet date and their income statements are translated at the weighted average exchange rate for the year.

The exchange differences arising on the translation are taken directly to the foreign currency translation reserve.

(vii) Cash and cash equivalents

Cash and short-term deposits in the balance sheet comprise cash on hand and in banks and short-term deposits with an original maturity of 3 months or less.

For the purposes of the Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above.

(viii) Trade and other receivables

Trade receivables, which generally have 7–40-day terms, are recognised and carried at original invoice amount less a provision for any uncollectable debts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred.

(ix) Investments and other financial assets

All investments are initially recognised at cost, being the fair value of the consideration given and including acquisition charges associated with the investment.

After initial recognition, investments, which are classified as held for trading and available-for-sale, are measured at fair value. Gains or losses on investments held for trading are recognised in the income statement.

For investments that are actively traded in organised financial markets, fair value is determined by reference to Stock Exchange quoted market bid prices at the close of business on the balance sheet date.

For investments where there is no quoted market price, fair value is determined by reference to the current market value of another instrument which is substantially the same or is calculated based on the expected cash flows of the underlying net asset base of the investment.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(x) Investment in associates

The Group's investments in its associates are accounted for under the equity method of accounting in the consolidated financial statements. These are the entities in which the Group has significant influence and which are neither subsidiaries nor joint ventures.

The financial statements of the associates are used by the Group to apply the equity method.

The investments in associates are carried in the consolidated balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the associate, less any impairment in value. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised. The consolidated income statement reflects the Group's share of the results of operations of the associates.

Where there has been a change recognised directly in the associate's equity, the Group recognises its share of any changes and discloses this, when applicable, in the consolidated statement of changes in equity.

(xi) Inventories

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

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

(xii) Property, plant and equipment

Cost

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

Depreciation

Depreciation is provided on a straight-line basis on all property, plant and equipment, other than freehold land.

Major depreciation periods are:

	2006	2005
Freehold buildings:	50 years	50 years
Plant and equipment:	5–15 years	5–15 years

Impairment

The carrying values of plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash generating units are written down to their recoverable amount.

The recoverable amount of plant and equipment is the greater of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment losses are recognised in the income statement.

De-recognition

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(xiii) Impairment of assets

At each reporting date, the Group assesses whether there is any indication that the value of an asset may be impaired. Where an indicator of impairment exists, the Group makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount.

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

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

(xiv) Leases

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

Operating leases

(i) Group as a lessee

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

(ii) Group as a lessor

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

Finance leases

Leases which transfer to the Group substantially all of the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments.

Capitalised leases are disclosed as property, plant and equipment under lease. A lease liability of equal value is also recognised.

Minimum lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income. Capitalised lease assets are depreciated over the shorter of the estimated useful life of the assets and the lease term.

The cost of improvements to or on leasehold property is capitalised, disclosed as leasehold improvements, and amortised over the unexpired period of the lease or the estimated useful lives of the improvements, whichever is the shorter.

(xv) Goodwill

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

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is not amortised. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

As at the acquisition date, any goodwill acquired is allocated to each of the cash-generating units expected to benefit from the combination's synergies.

Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised.

When goodwill forms part of a cash-generating unit and an operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation.

Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Impairment losses for goodwill are not subsequently reversed.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(xvi) Intangible assets

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

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

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

Intangible assets are tested for impairment where an indicator of impairment exists. Useful lives are also examined on an annual basis and adjustments, where applicable, are made on a prospective basis.

Contractual customer relationships are recognised as intangible assets when the criteria specified in AASB 138 *Intangible Assets* have been met. Contractual customer relationships are assessed to have a finite life and are amortised over the asset's useful life.

The carrying value of these assets are reviewed for impairment where an indicator of impairment exists.

Software development costs incurred on an individual project are carried forward when future recoverability can reasonably be assured. Following the initial recognition of software development costs, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses.

Any costs carried forward are amortised over the assets' useful economic lives.

The carrying value of software development costs is reviewed for impairment annually when an asset is not in use or more frequently when an indicator of impairment arises during a reporting period indicating that the carrying value may not be recoverable.

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

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

- Customer contracts – 25 years;
- Software development costs – 5 years.

(xvii) Trade and other payables

Trade payables and other payables are carried at amortised costs and represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services.

(xviii) Employee leave benefits

(i) Wages, salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

(ii) Long service leave

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

(xix) Interest-bearing loans and borrowings

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(xx) Provisions

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

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

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the risks specific to the liability.

Where discounting is used, the increase in the provision due to the passage of time is recognised as a borrowing cost.

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

Dividends payable are recognised when a legal or constructive obligation to pay the dividend arises, typically following approval of the dividend at a meeting of directors.

(xxi) Share-based payment transactions

The Group provides benefits to employees (including executive directors) of the Group in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares (equity-settled transactions).

The Group provides benefits to executive directors, senior executives and its employees in the form of the Employee Share Option Plan (ESOP).

The cost of these equity-settled transactions with employees is measured by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined using a binomial model, further details of which are given in note 15.

In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of Metcash Limited (market conditions).

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (vesting date).

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the number of awards that, in the opinion of the directors of the Group, will ultimately vest. This opinion is formed based on the best available information at balance date. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share.

(xxii) Revenue recognition

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

Sale of goods

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and can be measured reliably. Risks and rewards are considered passed to the buyer at the time of delivery of the goods to the customer.

Rendering of services

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(xxii) Revenue recognition (continued)

Interest

Revenue is recognised as the interest accrues (using the effective interest method, which is the rate that discounts estimated future cash receipts through the expected life of the financial instrument) to the net carrying amount of the financial asset.

Dividends

Revenue is recognised when the right to receive the payment is established.

Rental income

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

(xxiii) Income tax

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

Deferred income tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences:

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

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

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

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

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

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

(xxiv) Other taxes

Revenues, expenses and assets are recognised net of the amount of GST except:

- when the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables which are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

Cash flows are included in the Cash Flow Statement on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority is classified as operating cash flow.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(xxv) Earnings per share

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

Diluted earnings per share is calculated as net profit attributable to members of the parent, adjusted for:

- costs of servicing equity (other than dividends);
- the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares,

divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

(xxvi) Contributed equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(xxvii) Tasman Liquor – correction of prior period error

A full reconstruction of the accounts of Tasman Liquor Company Ltd, a 100% owned subsidiary of Metcash Limited, has been conducted and errors made over a number of years have been identified and corrected. The errors arose from a number of incorrect journal entries affecting primarily, Sales, Inventory and Gross Profit. The company's processes and procedures have now been changed and the accounting moved from New Zealand to Australia. A thorough investigation has been performed and no misappropriation has been identified.

The profit after income tax for the year ended 30 April 2005 of $128.3 million has been reduced by $1.44 million and the accumulated losses at 1 May 2004 of $87.4 million have been increased by $3.4 million. Refer to note 3 for further details.

Earnings per share for the year ended 30 April 2005 were reduced by 0.22 cents (basic) and by 0.21 cents (diluted).

(xxviii) Assets classified as held for sale

A non-current asset classified as held for sale at its carrying amount will be recovered principally through a sale transaction rather than through continuing use. Non-current assets classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. An impairment loss is recognised for any initial or subsequent write-down of the asset to fair value less costs to sell. Gains for any subsequent increase in fair values less costs to sell, are recognised only to the extent of the cumulative impairment loss that has been previously recognised.

(xxix) Borrowing costs

Borrowing costs are recognised as an expense when incurred.

(xxx) Comparatives

Where necessary, comparatives have been reclassified and repositioned for consistency with current year disclosures.

3 SEGMENT INFORMATION

Segment products and locations

The Group's primary segment reporting format is business segments as the Group's risks and rates of return are affected predominantly by differences in the products and services provided. The economic entity predominantly operates in the industries indicated. Food distribution activities comprise the distribution and marketing of grocery and tobacco supplies to retail outlets, convenience stores and hospitality outlets. Liquor distribution activities comprise the distribution of liquor products to retail outlets and hotels. Cash and Carry Distribution comprises the distribution of grocery and tobacco supplies via cash and carry warehouses. Geographically the Group operates predominantly in Australia. The New Zealand operation represents less than 5% of revenue, results, and assets of the consolidated entity.

Segment accounting policies

The selling price between segments is at normal selling price and is paid under similar terms and conditions as any other customers of the economic entity.

3 SEGMENT INFORMATION (continued)

	Business Segments									
	Food Distribution		Cash and Carry Distribution		Liquor Distribution		Eliminations		Consolidated	
	April 2006 $'000	April 2005 $'000	April 2006 $'000	April 2005 $'000	April 2006 $'000	April 2005 $'000	April 2006 $'000	April 2005 $'000	April 2006 $'000	April 2005 $'000
Segment Revenue										
Sales to customers outside the consolidated entity	4,659,265	3,864,662	1,147,438	990,095	2,407,672	2,155,617	–	–	8,214,375	7,010,374
Other revenues from customers outside the consolidated entity	–	–	–	–	–	–	–	–	–	–
Inter-segment revenues	724,551	446,478	524	17	114,383	126,914	(839,458)	(573,409)	–	–
Unallocated revenue	–	–	–	–	–	–	–	–	37,271	34,406
Total segment revenue	5,383,816	4,291,760	1,147,962	990,112	2,522,055	2,282,531	(839,458)	(573,409)	8,251,646	7,044,780
Segment result	175,808	141,621	21,235	17,308	30,711	26,085	–	–	227,755	185,014
Unallocated expenses									(94,269)	132
Consolidated entity profit from ordinary activities before income tax expense									133,486	185,146
Segment Assets	972,916	477,404	199,753	184,472	489,414	441,306	–	–	1,662,083	1,103,182
Unallocated Assets									1,441,937	583,800
Total Assets									3,104,020	1,686,982
Segment Liabilities	613,739	329,486	84,646	59,974	301,080	296,949	–	–	999,465	686,409
Unallocated Liabilities									1,071,688	996,108
Total Liabilities									2,071,153	1,682,517
Acquisition of property, plant and equipment and intangible assets	2,449	5,372	4,198	1,869	7,519	1,468	–	–	14,166	8,709
Depreciation	2,266	3,004	2,572	2,495	2,293	1,565	–	–	7,131	7,064
Amortisation	1,787	1,339	1,227	1,052	759	669	–	–	3,773	3,060
Non-cash expenses other than depreciation	334	1,530	260	(173)	1,584	(496)	–	–	2,178	861

The revenue, expenses, assets and liabilities of the holding company are included in the unallocated portion of the segment note.

All assets and liabilities of the holding company are held in Australia.

Tasman Liquor – correction of prior period error

The impact on the Liquor Distribution segment for the year ended 30 April 2005 was a reduction in sales of $ 2.7 million, a reduction in segment result of $2.155 million and a reduction in segment assets of $7.33 million.

4 REVENUE AND EXPENSES

	Metcash Group		Metcash Limited	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
(a) Revenue				
Sale of goods	8,214,375	7,010,374	–	–
Rent	29,127	26,587	–	–
Interest from other person/corporation	4,757	6,595	–	–
Dividend income	–	–	31,008	–
Other revenue	3,387	1,224	–	–
	8,251,646	7,044,780	31,008	–
(b) Other income				
Profit from disposal of property, plant and equipment	–	9,643	–	–
	–	9,643	–	–
(c) Expenses				
Depreciation of non-current assets	34,445	24,047	–	–
Amortisation of non-current assets	19,359	7,929	–	–
Loss from disposal of property, plant and equipment	624	–	–	–
Amortisation of customer relationships	2,900	–	–	–
Doubtful debt provision	2,424	6,011	–	–
Inventories obsolescence provision	11,225	8,693	–	–
	70,977	46,680	–	–
(d) Employee benefits expense				
Wages and salaries	322,084	233,952	–	–
Defined contribution plan expense	29,838	21,063	–	–
Workers' compensation costs	10,128	7,727	–	–
Share-based payments	3,260	224	3,260	16
Other employee benefits costs	6,167	4,025	–	–
	371,478	266,991	3,260	16
(e) Other finance costs				
Interest expense	45,271	8,050	–	–
	45,271	8,050	–	–

5 INCOME TAX

	Metcash Group		Metcash Limited	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
The major components of income tax expense are:				
Current income tax				
Current income tax charge	66,413	60,074	–	–
Adjustments in respect of current income tax of previous years	1,181	1,117	–	–
Deferred income tax				
Relating to origination and reversal of temporary differences	(15,286)	(2,888)	–	–
Income tax expense reported in the income statement	52,308	58,303	–	–
A reconciliation between tax expense and the product of accounting profit before income tax multiplied by the Group's applicable income tax rate is as follows:				
Accounting profit before income tax	133,486	185,146	27,748	(16)
At the Group's statutory income tax rate of 30% (2005: 30%)	40,046	55,544	8,324	(5)
Expenditure not allowable for income tax purposes	11,898	2,729	978	5
Income not assessable for income tax purposes	–	–	(9,302)	–
Other	364	30	–	–
Income tax expense reported in the consolidated income statement at an effective tax rate of 39% (2005: 31.5%)	52,308	58,303	–	–

	Balance Sheet		Income Statement	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Deferred income tax				
Deferred income tax at 30 April relates to the following:				
Deferred tax liabilities				
Accelerated depreciation for tax purposes	2,688	1,532	(1,156)	81
Deferred expenditure	7,935	16,812	8,877	(2,512)
	10,623	18,344		
Deferred tax assets				
Provisions	34,417	23,366	11,051	6,790
Future cost deductions	2,175	2,514	(339)	–
Other	–	3,147	(3,147)	(1,471)
	36,592	29,027		
Deferred tax income			15,286	2,888

5 INCOME TAX (continued)

At 30 April 2006, there is no recognised or unrecognised deferred income tax liability (2005: $nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries and associates as the Group has no liability for additional taxation should these earnings be remitted.

Tax consolidation

Metcash Limited and its 100% owned Australian resident subsidiaries intend to form a tax consolidated group with effect from 2 November 2005. Metcash Limited will be the head entity of the tax consolidated group. Members of the group intend to enter into a tax sharing arrangement in order to allocate income tax expense to the wholly owned subsidiaries on a pro-rata basis. In addition the agreement will provide for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations.

As a result of the entry of Metcash Limited and its 100% owned Australian resident subsidiaries into a tax consolidated group, the Group is required to reset the tax values of assets in the subsidiaries using the Allocable Cost Amount (ACA) method.

At the date of reporting, the impact of resetting the tax values of subsidiaries' assets on current year earnings and deferred tax assets and liabilities as at 30 April 2006 has not been finalised.

Metcash Limited will formally notify the Australian Taxation Office of its intentions when lodging its 30 April 2006 consolidated tax return.

Tax effect accounting by members of the tax consolidated group

Members of the tax consolidated group intend to enter into a tax funding agreement. The tax funding agreement will provide for the allocation of current taxes to members of the tax consolidated group in accordance with their accounting profit for the period, while deferred taxes are allocated to members of the tax consolidated group in accordance with the principles of AASB 112 *Income Taxes*. Allocations under the tax funding agreement will be made at the end of each quarter.

The allocation of taxes under the tax funding agreement is recognised as an increase/decrease in the subsidiaries' intercompany accounts with the tax consolidated group head company, Metcash Limited. Because under UIG 1052 *Tax Consolidation Accounting* the allocation of current taxes to tax consolidated group members on the basis of accounting profits is not an acceptable method of allocation given the group's circumstances, the difference between the current tax amount that is allocated under the tax funding agreement and the amount that is allocated under an acceptable method is recognised as a contribution/distribution of the subsidiaries' equity accounts. As a result, the group has applied the stand alone taxpayer approach in determining the appropriate amount of current taxes to allocate to members of the tax consolidated group.

In preparing the accounts for Metcash Limited for the current year, the following amounts have been recognised as tax-consolidation contribution adjustments:

	Metcash Limited	
	2006 $'000	2005 $'000
Total increase to inter-company assets of Metcash Limited	8,525	–

6 DIVIDENDS PAID

	Metcash Group		Metcash Limited	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
(a) Dividends paid on ordinary shares during the year				
(i) Final franked dividend for 2005: 0.0c (2004: 6.0c)	–	38,219	–	38,219
(ii) Interim franked dividend for 2006: 5.5c (2005: 9.5c)	27,732	64,705	27,732	64,705
	27,732	102,924	27,732	102,924
Dividends declared (not recognised as a liability as at 30 April 2006)				
Franked dividends for 2006: 6.0c per share (2005: nil)	44,864	–	44,864	–
(b) Franking credit balance				
The amount of franking credits available for the subsequent financial year are:				
– franking account balance as at the end of the financial year at 30% (2005: 30%)			154,722	–
– franking credits that will arise from the payment of income tax payable as at the end of the financial year			8,252	–
			162,974	–
The amount of franking credits available for future reporting period:				
– amount of franking credit of dividends declared but not recognised as distribution to shareholders during the period			(19,228)	–
			143,746	–

The tax rate at which paid dividends have been franked is 30% (2005: 30%).

Dividends declared have been franked at the rate of 30% (2005: 30%).

7 CASH AND CASH EQUIVALENTS

	Metcash Group		Metcash Limited	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Cash at bank and on hand	**220,199**	189,607	–	–
	220,199	189,607	–	–
Reconciliation of net profit after tax to net cash flows from operations				
Net profit	**81,178**	126,843	–	(16)
Adjustments for:				
Depreciation	**34,445**	31,977	–	–
Amortisation	**22,259**	–	–	–
Net (profit)/loss on disposal of property, plant and equipment	**624**	(2,165)	–	–
Share of associates' net profit	**(3,356)**	(273)	–	–
Dividends received from associates	**781**	–	–	–
Changes in assets and liabilities, net of the effects of purchase and disposal of subsidiaries	–	–	–	–
(Increase)/decrease in trade and other receivables	**(89,634)**	30,741	–	16
(Increase)/decrease in prepayments	**6,315**	4,075	–	–
(Increase)/decrease in inventories	**65,421**	23,787	–	–
(Increase)/decrease in deferred tax assets	**8,582**	(26,443)	–	–
(Decrease)/increase in payables and provisions	**129,623**	(83,736)	–	–
(Decrease)/increase in deferred tax liabilities	**(13,565)**	25,831	–	–
Net cash from operating activities	**242,673**	130,637	–	–

8 TRADE AND OTHER RECEIVABLES (CURRENT)

Trade receivables (i)	**788,935**	612,998	–	–
Allowance for doubtful debts	**(5,023)**	(8,553)	–	–
	783,912	604,445	–	–
Other receivables (ii)	**82,112**	43,561	–	–
Related party receivables: (iii)				
wholly owned subsidiaries	–	–	**265,090**	–
	866,024	648,006	**265,090**	–

(i) Trade receivables are non-interest-bearing, terms vary by business unit. At 30 April 2006, 88.44% of trade receivables are required to be settled within 30 days and 11.56% of trade receivables have terms extending from 30 days to 60 days. An allowance for doubtful debt is made when there is objective evidence that a trade receivable is impaired. An allowance of $2,424,000 (Company: $nil) has been recognised as an expense for the current year of specific debtors for which such evidence exists. See note 4(c). The amount of the allowance/impairment loss has been measured as the difference between the carrying amount of the trade receivables and the estimated future cash flows expected to be received from the relevant debtors.

(ii) Other receivables are non-interest-bearing and have repayment terms of less than 12 months.

(iii) For terms and conditions relating to related party payables refer to note 23.

9 INVENTORIES

	Metcash Group		Metcash Limited	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Finished goods (at net realisable value)	**534,995**	385,474	–	–
Total inventories at the lower of cost and net realisable value	**534,995**	385,474	–	–

Inventory write-downs recognised as an expense totalled $11,225,000 (2005: $8,693,000) for the Group and $nil (2005: $nil) for the Company. The expense is included in the cost of sales line item as a cost of inventory.

10 RECEIVABLES (NON-CURRENT)

Loans (i)	**4,909**	15,769	–	–
Other receivables (ii)	**3,110**	14,045	–	–
Total	**8,019**	29,814	–	–

(i) Loans receivable are non-current and have repayment terms of greater than 12 months. $2,128,000 (2005: $10,560,000) of loans are non-interest-bearing. $2,781,000 (2005: $5,209,000) of loans have annual interest of 8% (2005: 8%).

(ii) Other receivables are non-interest-bearing and have repayment terms greater than 12 months.

11 INVESTMENTS IN ASSOCIATES

	Metcash Group 2006 $'000	Metcash Group 2005 $'000	Metcash Limited 2006 $'000	Metcash Limited 2005 $'000
Investments in associates	50,171	2,450	–	–
	50,171	2,450	–	–

Interest in associates

	Principal activities	Balance date	Ownership interest 2006 %	Ownership interest 2005 %
Produce Traders Trust	Distribution of fruit and vegetables	30 Jun	40	40
Abacus Retail Property Trust	Retail property investment	30 Jun	25	25
Ritchies Stores Pty Ltd	Grocery retailing	30 Jun	26	–
Champions IGA	Grocery retailing	30 Jun	25	–
Dramet	Grocery retailing	30 Jun	26	–

The following table illustrates summarised financial information relating to the Group's investment in associates.

	Metcash Group 2006 $'000	Metcash Group 2005 $'000
Share of associates' profit:		
Profit/(loss) before income tax	4,796	390
Income tax expense	(1,440)	(117)
Profit after income tax	3,356	273
Share of associates' balance sheet:		
Current assets	18,369	1,281
Non-current assets	44,230	2,823
	62,599	4,104
Current liabilities	(31,764)	(2,223)
Non-current liabilities	(12,554)	(171)
	(44,318)	(2,394)
Net assets	18,281	1,710

There were no impairment losses relating to the investments in associates and no capital commitments or other commitments relating to the associates.

12 OTHER FINANCIAL ASSETS (NON-CURRENT)

	Metcash Group 2006 $'000	Metcash Group 2005 $'000	Metcash Limited 2006 $'000	Metcash Limited 2005 $'000
Investment in shares (unlisted)	227	180	–	–
Deferred acquisition costs	–	3,941	–	–
Investments in controlled entities	–	–	2,242,229	2,242,229
	227	4,121	2,242,229	2,242,229

13 PROPERTY, PLANT AND EQUIPMENT

	Metcash Group			Metcash Limited		
	Land and Buildings $'000	Plant and Equipment $'000	Total $'000	Land and Buildings $'000	Plant and Equipment $'000	Total $'000
Year ended 30 April 2006						
At 1 May 2005, net of accumulated depreciation and impairment	27,092	49,922	77,014	–	–	–
Additions	2,779	41,709	44,488	–	–	–
Disposals	(4,370)	(4,796)	(9,166)	–	–	–
Assets held for sale	(23,139)	(77,010)	(100,149)	–	–	–
Additions through acquisition of entities/operations	46,610	122,868	169,478	–	–	–
Depreciation charge for the year	(1,843)	(32,602)	(34,445)	–	–	–
At 30 April 2006, net of accumulated depreciation and impairment	47,129	100,091	147,220	–	–	–
At 1 May 2005						
Cost or fair value	29,765	69,811	99,576	–	–	–
Accumulated depreciation and impairment	(2,673)	(19,889)	(22,562)	–	–	–
Net carrying amount	27,092	49,922	77,014	–	–	–
At 30 April 2006						
Cost or fair value	51,138	154,478	205,616	–	–	–
Accumulated depreciation and impairment	(4,009)	(54,387)	(58,396)	–	–	–
Net carrying amount	47,129	100,091	147,220	–	–	–
Year ended 30 April 2005						
At 1 May 2004, net of accumulated depreciation and impairment	27,548	35,778	63,326	–	–	–
Additions	39	27,806	27,845	–	–	–
Disposals	–	(11,529)	(11,529)	–	–	–
Additions through acquisition of entities/operations	–	1,360	1,360	–	–	–
Depreciation charge for the year	(495)	(3,493)	(3,988)	–	–	–
At 30 April 2005, net of accumulated depreciation and impairment	27,092	49,922	77,014	–	–	–
At 1 May 2004						
Cost or fair value	29,760	68,969	98,729	–	–	–
Accumulated depreciation and impairment	(2,212)	(33,191)	(35,403)	–	–	–
Net carrying amount	27,548	35,778	63,326	–	–	–
At 30 April 2005						
Cost or fair value	29,765	69,811	99,576	–	–	–
Accumulated depreciation and impairment	(2,673)	(19,889)	(22,562)	–	–	–
Net carrying amount	27,092	49,922	77,014	–	–	–

The carrying value of plant and equipment held under finance leases and hire purchase contracts at 30 April 2006 is $21,109,000 (2005: $24,547,000).

14 INTANGIBLE ASSETS AND GOODWILL

	Metcash Group				Metcash Limited
	Software Development Costs	Customer Contracts	Goodwill	Total	Total
At 1 May 2005					
Cost (gross carrying amount)	98,870	–	274,041	372,911	–
Accumulated amortisation and impairment	(46,811)	–	–	(46,811)	–
Net carrying amount	52,059	–	274,041	326,100	–
Year ended 30 April 2006					
At 1 May 2005, net of accumulated amortisation and impairment	52,059	–	274,041	326,100	–
Additions	5,776	–	16,857	22,633	–
Acquisition of subsidiary	–	148,000	585,260	733,260	–
Amortisation	(19,359)	(2,900)	–	(22,259)	–
Fair Value Adjustment	–	–	(9,000)	(9,000)	–
At 30 April 2006, net of accumulated amortisation and impairment	38,476	145,100	867,158	1,050,734	–
At 30 April 2006					
Cost (gross carrying amount)	104,646	148,000	867,158	1,119,804	–
Accumulated amortisation and impairment	(66,170)	(2,900)	–	(69,070)	–
Net carrying amount	38,476	145,100	867,158	1,050,734	–
At 1 May 2004					
Cost (gross carrying amount)	85,671	–	243,092	328,763	–
Accumulated amortisation and impairment	(18,823)	–	–	(18,823)	–
Net carrying amount	66,848	–	243,092	309,940	–
Year ended 30 April 2005					
At 1 May 2004, net of accumulated amortisation and impairment	66,848	–	243,092	309,940	–
Additions	13,199	–	–	45,165	–
Acquisition of subsidiary	–	–	31,966	–	–
Amortisation	(27,988)	–	–	(27,988)	–
Reverse acquisition	–	–	(1,017)	(1,017)	–
At 30 April 2005, net of accumulated amortisation and impairment	52,059	–	274,041	326,100	–
At 30 April 2005					
Cost (gross carrying amount)	98,870	–	274,041	372,911	–
Accumulated amortisation and impairment	(46,811)	–	–	(46,811)	–
Net carrying amount	52,059	–	274,041	326,100	–

14 INTANGIBLE ASSETS AND GOODWILL (continued)

Intangibles – contractual customer relationships

As part of the acquisition of FAL, contractual customer relationships were brought to account in line with AASB 3 *Business Combinations* and AASB 138 *Intangible Assets*.

Valuation approach

To value the contractual customer relationships, the multi-period excess-earnings approach (MEEM) that attributes value to intangible assets by reference to the excess earnings generated by an intangible has been applied. Specifically the MEEM approach adjusts the earnings stream and cash flows generated by customer relationships having regard to the longevity of the customer relationships. That is the period over which the relationship is expected to generate economic benefit. In the case of valuing a relationship with a number of similar customers, this will typically be modelled by reference to the attrition in relationships over time.

The following describes the key assumptions applied by management in the valuation of contractual customer relationships:

Cash flow forecasts – Cash flow forecasts are based on historical results extrapolated out to 25 years using forecast growth rates.

Forecast growth rates – Forecast growth rates are based on past performance and management's expectations for future performance.

Forecast attrition rates – Attrition rates used are based on historical rates experienced and management's expectations of future attrition.

Discount rates – A discount rate approximating the weighted average cost of capital of an acquirer of the FAL business has been applied.

The Company has arrived at a valuation of contractual customer relationships of $148 million with a finite life and amortised over 25 years, straight-line. Amortisation of $2.9 million has been recognised in profit or loss (in the administrative costs line) in the current financial year.

Intangibles – software development costs

Software development costs have been capitalised at cost and are amortised on a straight-line basis over the asset's useful economic life which has been assessed as 5 years. Software development costs are tested for impairment where an indicator of impairment exists. Useful lives are also examined on an annual basis and adjustments, where applicable, are made on a prospective basis.

Impairment testing of goodwill

Goodwill acquired through business combinations have been allocated to the three business pillars: IGA Distribution (IGA>D), Campbells Wholesale (CW) and Australian Liquor Marketers (ALM), which are reportable segments. In IGA>D these are further allocated by states. Under AIFRS, goodwill and intangibles with indefinite lives have to be tested annually, provided the testing is done at the same time each year. Management has elected to conduct the impairment test during the year. The cash generating units (CGU) used for impairment testing are as follows:

	Carrying value $'000
IGA>D NSW	53,432
IGA>D VIC	41,364
IGA>D QLD	134,734
IGA>D SA	45,011
IGA>D WA	472,371
CW; and	33,371
ALM	77,546

14 INTANGIBLE ASSETS AND GOODWILL (continued)

The recoverable amount of the CGUs have been determined based on a value in use calculation using cash flow projections based on financial projections approved by senior management covering a 5-year period.

The discount rate applied to cash flow projections is 8.73% and cash flows beyond the 5-year period are extrapolated using the following growth rates:

IGA>D NSW	3.4%
IGA>D VIC	2.8%
IGA>D QLD	4.8%
IGA>D SA	3.5%
IGA>D WA	4.8%
CW; and	2.9%
ALM	2.9%

These growth rates are based on the historical population and food inflation growth rates for each CGU.

Key assumptions used in value in use calculations

The following describes the key assumptions on which management has based its cash flow projection:

Budgeted gross margins. These have been estimated based on utilisation of existing assets and on the average gross margins achieved immediately before the budgeted year.

Risk free rate based on current Commonwealth Government 10-year bond rate at the date of impairment test.

Future growth driven by population growth, food inflation and changes in market share.

15 SHARE-BASED PAYMENTS

Share-based payment plans

During the year options were issued to certain Executive Directors. The performance hurdle determined by the Board in relation to these options is as follows:

- In each of the years in which options become available for exercise, earnings per share for the financial year preceding the tranche exercise date must be equal to a 12.5% increase in earnings per share compounded from the 2005 financial year earnings per share, adjusted for any dilution or reduction that might occur as a consequence of any material alteration to the number of shares issued.
- In addition during the year there was a general share option issue to the Group's employees. There are no performance hurdles associated with these options.
- The contractual life of the option is a maximum of 6 years. There were no cash settlement alternatives.

15 SHARE-BASED PAYMENTS (continued)

The following table illustrates the number and exercise prices and movements during the year ended 30 April 2006 and 30 April 2005:

	2006 Number	2006 Exercise price	2005 Number	2005 Exercise price
Outstanding at the beginning of the year	12,324,700	–	19,242,210	–
Granted during the year	4,450,000	4.01	–	–
Granted during the year	10,927,124	3.925	850,000	2.70
Exercised during the year	848,400	0.161	–	–
	1,200	0.44	2,114,490	0.44
	17,200	0.161	838,920	0.431
	12,000	0.161	1,020,000	1.655
	1,700,000	1.385	1,556,490	1.538
	3,157,346	1.268	–	–
	46,800	1.87	–	–
Expired during the year	400,586	various	2,237,610	various
Outstanding at the end of the year	21,518,292	–	12,324,700	–

The outstanding balance as at 30 April 2006 is represented by:

- 124,440 options over ordinary shares with an exercise price of $0.161 exercisable until 11 August 2006.
- 15,000 options over ordinary shares with an exercise price of $0.161 exercisable until 25 November 2006.
- 4,470,064 options over ordinary shares with an exercise price of $1.268 exercisable until 25 January 2008.
- 680,000 options over ordinary shares with an exercise price of $1.386 exercisable until 14 December 2007.
- 141,900 options over ordinary shares with an exercise price of $1.87 exercisable until 10 July 2007.
- 850,000 options over ordinary shares with an exercise price of $2.43 exercisable until 2 September 2010.
- 4,450,000 options over ordinary shares with an exercise price of $4.0134 exercisable until 2 September 2011.
- 10,786,888 options over ordinary shares with an exercise price of $3.9251 exercisable until 2 September 2011.

The fair value of options granted during the year was $1.27 for the Executive Directors' issue and $1.30 for the general staff issue.

The fair value of the equity-settled share options granted is estimated at the date of the grant using a binomial model taking into account the terms and conditions upon which the options were granted.

The following table lists the inputs to the model in the year ending 30 April 2006 and year ending 30 April 2005:

	2006	2005
Dividend yield (%)	3.91	4.10
Expected Volatility (%)	37.80	37.80
Risk free rate (%)	5.47	5.36
Expected Life of Options (years)	6.00	6.00
Option exercise price ($)	3.92	2.43
	4.01	–
Weighted average share price ($)	4.00	2.75

16 TRADE AND OTHER PAYABLES (CURRENT)

	Metcash Group		Metcash Limited	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Trade payables (i)	**911,072**	723,037	–	–
Other payables (i)	**264,396**	103,842	–	–
	1,175,468	826,879	–	–
Related party payables (ii)	–	–	–	–
Wholly owned subsidiaries	–	–	–	906,621
	1,175,468	826,879	–	906,621

(i) Trade and other payables are non-interest-bearing and are normally settled within 30-day terms.

(ii) For terms and conditions relating to related party payables refer to note 23.

17 INTEREST-BEARING LOANS AND BORROWINGS

	Metcash Group		Metcash Limited	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Current				
Secured liabilities				
Finance lease obligation (i)	**5,810**	7,995	–	–
	5,810	7,995	–	–
Non-current				
Finance lease obligation (ii)	**16,771**	17,469	–	–
Bank loans (ii)	**734,528**	323,779	–	–
	751,299	341,248	–	–
Convertible, redeemable, subordinated, unsecured loan notes – CULS (iii)	–	375,080	–	–
Convertible undated preference shares – CUPS (iv)	–	50,000	–	–
	751,299	766,328	–	–

(i) Finance leases have an average lease term of 5 years with the option to purchase the asset at the completion of the lease term for the asset's market value. The average discount rate implicit in the lease is 7.22% (2005: 7.2%). Secured lease liabilities are secured by a charge over the leased asset.

(ii) Bank loans are a 3-year senior unsecured syndicated loan note subscription facility. The syndicated facility has been provided to Metcash by a syndicate of lenders.

(iii) The above represents 50% of the original CULS issue, which were redeemed at the issue price plus redemption premium of 7.5% during the current financial year.

(iv) All CUPS were redeemed at the issue price plus redemption premium of $2,557,000 during the current financial year.

18 PROVISIONS

	Metcash Group			
	Employee entitlements $'000	Lease and remediation $'000	Other $'000	Total $'000
1 May 2005	45,112	2,503	2,200	49,815
Acquisition of subsidiary	18,815	–	–	18,815
Arising during the year	20,729	135	250	21,114
Utilised	(27,161)	(1,351)	(918)	(29,430)
30 April 2006	**57,495**	**1,287**	**1,532**	**60,314**

Other provisions contains a number of insignificant balances, the costs of which are expected to be incurred within the next financial year.

	Metcash Group		Metcash Limited	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Current				
Employee entitlements	**30,653**	27,364	–	–
Lease and remediation	**896**	1,413	–	–
Other	**1,532**	2,200	–	–
	33,081	30,977	–	–
Non-current				
Employee entitlements	**26,842**	17,748	–	–
Lease and remediation	**391**	1,090	–	–
	27,233	18,838	–	–
Total	**60,314**	49,815	–	–

19 CONTRIBUTED EQUITY AND RESERVES

	Metcash Group		Metcash Limited	
	2006	2005	2006	2005
(a) Ordinary shares:				
Issued and fully paid	**1,823,895**	846,976	**2,498,794**	1,335,608
	1,823,895	846,976	**2,498,794**	1,335,608

19 CONTRIBUTED EQUITY AND RESERVES (continued)

	Metcash Group			
	2006		2005	
	Number of shares	$'000	Number of shares	$'000
Movements in ordinary shares on issue				
At 1 May	427,395,233	846,976	353,797,828	1,156,918
Issued during the year:				
Dividend Reinvestment Plan	6,521,085	27,734	–	–
– Exercise of employee options – 877,600 ordinary shares at 16.1 cents per share	877,600	141	–	–
– Exercise of employee options – 1,200 ordinary shares at 44 cents per share	1,200	1	–	–
– Exercise of employee options – 3,157,346 ordinary shares at 126.8 cents per share	3,157,346	4,004	–	–
– Exercise of employee options – 1,700,000 ordinary shares at 138.6 cents per share	1,700,000	2,356	–	–
– Exercise of employee options – 46,800 ordinary shares at 187 cents per share	46,800	88	–	–
FAL Share allotment	234,444,195	949,499	–	–
– Conversion of CULS (a)	73,597,894	–	73,597,405	186,937
– Transaction costs	–	(6,904)		(8,247)
At 30 April	747,741,353	1,823,895	427,395,233	1,335,608

	Metcash Limited			
	2006		2005	
	Number of shares	$'000	Number of shares	$'000
Movements in ordinary shares on issue				
At 1 May	427,395,233	1,335,608	–	–
Issued during the year:				
Conversion of shares from Metcash Trading Limited at $3.27 per share	–	–	353,797,828	1,156,918
Less transaction costs			–	(3,947)
Dividend Reinvestment Plan	6,521,085	27,734	–	–
– Exercise of employee options – 877,600 ordinary shares at 16.1 cents per share	877,600	141	–	–
– Exercise of employee options – 1,200 ordinary shares at 44 cents per share	1,200	1	–	–
– Exercise of employee options – 3,157,346 ordinary shares at 126.8 cents per share	3,157,346	4,004	–	–
– Exercise of employee options – 1,700,000 ordinary shares at 138.6 cents per share	1,700,000	2,356	–	–
– Exercise of employee options – 46,800 ordinary shares at 187 cents per share	46,800	88	–	–
FAL Share allotment	234,444,195	949,499	–	–
– Conversion of CULS (a)	73,597,894	186,937	73,597,405	186,937
– Transaction costs	–	(10,850)	–	(4,300)
At 30 April	747,741,353	2,495,518	427,395,233	1,335,608

(a) 25% of CULS were converted to ordinary shares in Metcash Limited on 19 September 2005 on a 1 to 1 basis (2005: 7 April 2005).

(b) Effective 1 July 1998, the Corporations legislation in place abolished the concepts of authorised capital and par value shares. Accordingly, Metcash Limited does not have authorised capital nor par value in respect of its issued shares.

(c) Under AIFRS reverse acquisition rules, the number of shares disclosed by the consolidated group are those of Metcash Limited whilst the value of shares disclosed by the consolidated group are those of Metcash Trading Limited.

(d) Fully paid ordinary shares carry one vote per share and carry the right to dividends.

19 CONTRIBUTED EQUITY AND RESERVES (continued)

Reserves

	Metcash Group				Metcash Limited		
	Share-based payments $'000	Capital reserves $'000	Foreign currency translation $'000	Total $'000	Share-based payments $'000	Tax consolidation reserve $'000	Total $'000
At 1 May 2004	37	12,777	(185)	12,629	–	–	–
Currency translation differences	–	–	1,347	1,347	–	–	–
Share-based payments	187	–	–	187	16	–	16
At 30 April 2005	224	12,777	1,162	14,163	16	–	16
Currency translation differences	–	–	(5,223)	(5,223)	–	–	–
Share-based payments	3,260	–	–	3,260	3,260	–	3,260
At 30 April 2006	**3,484**	**12,777**	**(4,061)**	**12,200**	**3,276**	**–**	**3,276**

Nature and purpose of reserves

Capital profits reserve

The capital profits reserve is used to accumulate realised capital profits. The reserve can be used to pay dividends or issue bonus shares.

Share-based payments reserve

This reserve is used to record the value of equity benefits provided to employees and directors as part of their remuneration. Refer to note 15 for further details of these plans.

Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries. It is also used to record the effect of hedging net investments in foreign operations.

Tax consolidation reserve

The tax consolidation reserve records the changes in equity required by the application of UIG 1052.

Retained earnings

	Metcash Group		Metcash Limited	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
At 1 May	**(90,751)**	(114,670)	**(16)**	–
Profit/(loss) for the period	**81,178**	128,287	**27,748**	(16)
Dividends	**(27,732)**	(102,924)	**(27,732)**	–
Prior period adjustment	–	(1,444)	–	–
At 30 April	**(37,305)**	(90,751)	–	(16)

Other Equity

	Metcash Group 2006 $'000	Metcash Group 2005 $'000	Metcash Limited 2006 $'000	Metcash Limited 2005 $'000
At 1 May	**(765,923)**	–	–	–
Reverse acquisition	–	(765,923)	–	–
At 30 April	**(765,923)**	(765,923)	–	–

Nature and purpose

The other equity account is used to record the reverse acquisition adjustment on application of AASB 3 *Business Combinations*.

20 FINANCIAL INSTRUMENTS

Interest rate risk

The consolidated entity exposure to interest rate risk and the effective rates of financial assets and liabilities, both recognised and unrecognised at balance date, are as follows:

Financial Instruments	1 year or less		Over 1 to 5 years		More than 5 years		Total carrying amount as per the Balance Sheet		Weighted average effective interest rate	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000	2006 $'000	2005 $'000	2006 $'000	2005 $'000	2006 %	2005 %
(i) Financial assets										
Fixed rate										
Trade and other receivables	–	–	**7,801**	10,600	–	–	**7,801**	10,600	**8.50**	7.10
Weighted average interest rate			**8.00%**	7.10%						
Floating rate										
Cash	**220,199**	189,607	–	–	–	–	**220,199**	189,607	**5.09**	5.40
Weighted average interest rate	**5.35%**	5.40%								
Total financial assets	**220,199**	189,607	**7,801**	10,600	–	–	**228,000**	200,207	–	–
(ii) Financial liabilities										
Fixed rate										
Finance lease liability	**5,810**	7,995	**13,288**	12,694	**3,483**	4,775	**22,581**	25,464	**7.22**	7.20
Weighted average interest rate	**7.36%**	8.05%	**7.24%**	6.47%	**6.51%**	6.47%				
Floating rate										
CUPS	–	50,000	–	–	–	–	–	50,000	–	5.35
Bank and other loans	**734,528**	335,000	–	–	–	–	**734,528**	335,000	**7.00**	5.78
Weighted average interest rate	**7.00%**	5.61%								
Total financial liabilities	**740,338**	392,995	**13,288**	12,694	**3,483**	4,775	**757,109**	410,646	–	–

At the reporting date, the carrying value of all financial assets and liabilities approximate their net fair values.

The other financial instruments of the Group and parent that are not included in the above tables are non-interest-bearing and are therefore not subject to interest rate risk.

21 FINANCIAL RISK MANAGEMENT

Financial risk management objectives and policies

The Group's principal financial instruments comprise bank loans and overdrafts, finance and operating leases and cash and short-term deposits.

The main purpose of these instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and payables, which arise directly from its operations.

The Group also enters into a small number of derivative transactions principally to manage interest rate risks arising from the Group's operations and its sources of finance.

The main risks arising from the Group's financial instruments are cash flow interest rate risk and credit risk. The Board reviews and agrees policies for managing each of these risks and they are detailed below.

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial instrument, financial liability and equity instrument are disclosed in note 2 summary of significant accounting policies.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with a floating interest rate.

To manage the exposure, the Group enters into interest rate swaps designated to hedge underlying debt obligations.

Credit risk

The Group trades with a large number of customers across the business operations and it is Group policy that all customers who wish to trade on credit terms are subject to credit verification procedures.

In addition receivables balances are monitored on an ongoing basis and a formal review of all balances occurs every 6 months and where necessary appropriate provisions are established.

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

Foreign currency risk

The Group's exposure to foreign currency risk is minimal.

22 COMMITMENTS AND CONTINGENCIES

(a) Operating lease commitments

The Group has entered into commercial leases on certain forklifts, land and buildings. These leases have an average lease term of 5 years and an implicit interest rate of 7%. Contingent rentals are payable to reflect movements in the Consumer Price Index on certain leases and to reflect the turnover of certain stores occupying the land and buildings. Future minimum rentals payable under non-cancellable operating leases as at 30 April are as follows:

	Metcash Group		Metcash Limited	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Within 1 year	**65,670**	55,242	–	–
After 1 year but not more than 5 years	**212,210**	170,436	–	–
More than 5 years	**150,582**	140,318	–	–
	428,462	365,996	–	–
Aggregate expenditure commitments comprise:	–	–	–	–
Store lease and remediation provision	**(1,287)**	(2,200)	–	–
Aggregate lease expenditure contracted for at reporting date	**427,175**	363,796	–	–

(b) Operating lease receivable

Certain properties under operating lease have been sublet to third parties. These leases have an average lease term of 5 years and an implicit interest rate of 7%. The future lease payments expected to be received at the reporting date are:

	Metcash Group		Metcash Limited	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Within 1 year	**11,210**	21,390	–	–
After 1 year but not more than 5 years	**68,998**	62,064	–	–
More than 5 years	**60,354**	57,538	–	–
	140,562	140,992	–	–

(c) Finance lease commitments

The Group has finance leases for various items of vehicles and equipments. The weighted average interest rate impact in the leases is 7.22% (2005: 7.2%). The parent company has no finance lease commitments. Future minimum lease payments under finance leases together with the present value of the net minimum lease payments are as follows:

Metcash Group	Minimum lease payments		Present value of lease payments	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Within 1 year	**7,347**	9,639	**5,810**	8,002
After 1 year but not more than 5 years	**15,538**	15,312	**14,153**	14,187
More than 5 years	**4,738**	5,763	**2,618**	3,275
	27,623	30,714	**22,581**	25,464
Less amounts representing finance charges	**(5,042)**	(5,250)	–	–
Present value of minimum lease payments	**22,581**	25,464	**22,581**	25,464

23 RELATED PARTY DISCLOSURE

The consolidated financial statements include the financial statements of Metcash Limited and the subsidiaries listed in the following table.

Name	Country of incorporation	Percentage of equity interest held by the consolidated entity 2006 %	2005 %
Metcash Trading Limited	Australia	100	100
Australian Liquor Marketers Pty Limited (a)	Australia	100	100
Campbells Cash and Carry Pty Ltd	Australia	100	100
Clancy's Food Stores Pty Ltd	Australia	100	100
Cotswrap Pty Ltd (a)	Australia	100	100
Metcash Export Services Pty Ltd	Australia	100	100
Davids Supermarkets Pty Ltd	Australia	–	100
IGA Retail Services Pty Ltd	Australia	100	100
Jewel Food Stores Pty Ltd	Australia	100	100
Jewel Superannuation Fund Pty Ltd (a)	Australia	100	100
M C International Australia Pty Ltd (a)	Australia	100	100
Metro Cash & Carry Pty Ltd (a)	Australia	100	100
Property Reference Pty Ltd	Australia	100	100
Retail Merchandise Services Pty Ltd	Australia	100	100
Davids Food Services Pty Ltd (a)	Australia	100	100
Australian Liquor Marketers (QLD) Pty Ltd (a)	Australia	100	100
Denham Bros Pty Limited (a)	Australia	100	100
Moucharo Pty Ltd (a)	Australia	100	100
QIW Pty Limited (a)	Australia	100	100
Queensland Independent Wholesalers Pty Limited (a)	Australia	100	100
Regzem (No. 3) Pty Ltd (a)	Australia	100	100
Regzem (No. 4) Pty Ltd (a)	Australia	100	100
Retail Stores Development Finance Pty Limited (a)	Australia	100	100
Rockblock Pty Ltd (a)	Australia	100	100
RSDF Nominees Pty Ltd (a)	Australia	100	100
Australis Marine Services (Australia) Pty Ltd	Australia	–	100
Bofeme Pty Ltd (a)	Australia	100	100
City Ice and Cold Storage Company Pty Ltd (a)	Australia	100	100
Composite Buyers Finance Pty Ltd (a)	Australia	100	100
Composite Buyers Pty Limited (a)	Australia	100	100
Composite Pty Ltd (a)	Australia	100	100
David Boehm Pty Ltd	Australia	–	100
IGA Distribution Pty Ltd	Australia	100	100
IGA Distribution (VIC) Pty Ltd	Australia	100	100
Five Star Wholesalers Pty Ltd	Australia	100	100
Metcash Holding Pty Limited	Australia	100	100
Keithara Pty Ltd (a)	Australia	100	100
Knoxfield Transport Service Pty Ltd (a)	Australia	100	100
Moorebank Transport Pty Ltd (a)	Australia	100	100
Payless Superbarn (NSW) Pty Ltd (a)	Australia	100	100
Payless Superbarn (VIC) Pty Ltd (a)	Australia	100	100
Rainbow Supermarkets Pty Ltd (a)	Australia	100	100
Mirren (Australia) Pty Ltd	Australia	100	100
Stonemans (Management) Pty Ltd	Australia	100	100
Stonemans Self Service Pty Ltd	Australia	100	100
Arrow Pty Limited	Australia	100	100
Blue Lake Exporters Pty Ltd	Australia	100	100
Casuarina Village Shopping Centre Pty Ltd	Australia	100	100

23 RELATED PARTY DISCLOSURE (continued)

Name	Country of incorporation	Percentage of equity interest held by the consolidated entity 2006 %	2005 %
IGA Distribution (SA) Limited	Australia	100	100
Metcash Management Pty Ltd	Australia	100	100
Gawler Supermarkets Pty Ltd	Australia	100	100
Metcash Storage Ltd	Australia	100	100
Green Triangle Meatworks Limited	Australia	100	100
Pasadena Properties Pty Ltd	Australia	–	100
Pasadena Retail Pty Ltd	Australia	–	100
Plympton Properties Pty Ltd	Australia	100	100
Seaford Supermarket Pty Ltd	Australia	–	100
Davids Group Staff Superannuation Fund Pty Ltd	Australia	100	100
Australian Liquor Marketers (WA) Pty Ltd (a)	Australia	100	100
Jorgensons Confectionery Pty Limited (a)	Australia	100	100
Tasman Liquor Company Ltd	New Zealand	100	100
Amalgamated Confectionery Wholesalers Pty Ltd	Australia	100	100
Harvest Liquor Pty Ltd	Australia	100	100
IGA Pacific Pty Limited	Australia	100	50
IGA Retail Network Limited	Australia	100	100
Independent Brands Australia Pty Limited	Australia	100	100
Newton Cellars Pty Ltd	Australia	100	100
Regeno Pty Limited	Australia	100	100
Rennet Pty Limited	Australia	100	100
Tasher No.8 Pty Limited	Australia	100	100
Vawn No.3 Pty Ltd	Australia	100	50
Australian Asia Pacific Wholesalers Pty Limited	Australia	86	71
Rainbow Unit Trust	Australia	100	100
Wimbledon Unit Trust	Australia	100	100
QIW Employees Superannuation Pty Ltd	Australia	–	100
QIW Staff Superannuation Pty Ltd	Australia	–	100
Action Holdco Pty Limited	Australia	100	100
GP New Co Pty Ltd	Australia	100	100
IGA Community Chest Limited	Australia	100	100
Melton New Co Pty Ltd	Australia	100	100
NZ Holdco Limited	Australia	100	100
Metoz Holding Limited	South Africa	100	100
Pinnacle Holdings Limited	Jersey	100	100
Wickson Corporation Limited	Netherlands Antilles	100	100
Soetensteeg 2 61 Exploitatiemaat schappij BV	Netherlands Antilles	100	100
Metcash Services Proprietary Ltd	Australia	100	–
Action Holdings Pty Ltd	Australia	100	–
Action Supermarkets Pty Ltd	Australia	100	–
Action Projects Pty Ltd	Australia	100	–
Quickstop Pty Ltd	Australia	100	–
FAL Superannuating Fund Pty Ltd	Australia	100	–
Drumstar V 2 Pty Ltd	Australia	100	–
Foodland Property Holdings Pty Ltd	Australia	100	–
FAL Properties Pty Ltd	Australia	100	–
Foodland Property Unit Trust	Australia	100	–
Foodland Properties Pty Ltd	Australia	100	–
SR Brands Pty Ltd	Australia	100	–

23 RELATED PARTY DISCLOSURE (continued)

Name	Country of incorporation	Percentage of equity interest held by the consolidated entity	
		2006 %	2005 %
Foodchain Holdings Pty Ltd	Australia	100	–
IGA Distribution (WA) Pty Ltd	Australia	100	–
IGA Retail Services Pty Ltd	Australia	100	–
Retail merchandise Services Pty Ltd (a)	Australia	100	–

Metcash Limited is the ultimate parent entity.

(a) Entities subject to class order relief

Pursuant to Class Order 98/1418, relief has been granted to all controlled entities, except those marked (a), from the Corporations Law requirements for preparation, audit and lodgement of their financial reports. As a condition of the Class Order, Metcash Limited and the controlled entities subject to the Class Order (the Closed Group) entered into a Deed of Cross Guarantee on 27 May 1994 or assumption deeds dated 7 February 1995 and 20 May 1996. The effect of the deed is that Metcash Limited has guaranteed to pay any deficiency in the event of winding up of these controlled entities. The controlled entities have also given similar guarantees in the event that Metcash Limited is wound up.

23 RELATED PARTY DISCLOSURE (continued)

The consolidated income statement and balance sheet of the entities that are members of the 'Closed Group' are as follows:

	Closed Group 2006 $'000	Closed Group 2005 $'000
(i) Income Statement		
Profit before income tax	102,725	149,914
Income tax expense	(43,080)	(50,460)
Profit after tax	59,645	99,454
Net profit for the financial year	59,645	99,454
Retained profits at the beginning of the financial year	(182,457)	(178,987)
Dividends provided for or paid	(27,732)	(102,924)
Retained profits at the end of the financial year	(150,544)	(182,457)
(ii) Balance Sheet		
ASSETS		
Current Assets		
Cash and cash equivalents	220,199	143,523
Trade and other receivables	554,021	990,538
Inventories	378,049	265,834
Other	2,416	7,749
	1,154,685	1,407,644
Non-current assets classified as held for sale	185,505	–
Total Current Assets	1,340,190	1,407,644
Non-Current Assets		
Receivables	7,213	28,925
Investments accounted for using the equity method	50,171	2,450
Other financial assets	167	3,662
Property, plant and equipment	136,108	119,861
Deferred income tax assets	32,908	1,779
Intangible assets	1,013,651	203,999
Other	–	13,568
Total Non-Current Assets	1,240,218	374,244
Total Assets	2,580,408	1,781,888
LIABILITIES		
Current Liabilities		
Trade and other payables	881,387	371,585
Interest-bearing loans and borrowings	10,589	7,252
Current tax liabilities	10,170	12,694
Provisions	26,534	25,863
	928,679	417,394
Liabilities directly associated with assets held for sale	49,655	–
Total Current Liabilities	978,334	417,394

23 RELATED PARTY DISCLOSURE (continued)

	Closed Group	
	2006 $'000	2005 $'000
Non-Current Liabilities		
Interest-bearing loans and borrowings	**749,946**	349,870
Convertible, redeemable, subordinated, unsecured loan notes (CULS)	–	375,080
Convertible undated preference shares (CUPS)	–	50,000
Deferred income tax liabilities	**10,623**	–
Provisions	**23,851**	15,788
Total Non-current Liabilities	**784,420**	790,738
Total Liabilities	**1,762,755**	1,208,132
NET ASSETS	**817,653**	573,756
EQUITY		
Contributed equity	**1,725,612**	748,705
Other equity	**(762,439)**	–
Reserves	**5,025**	7,508
Retained profits	**(150,544)**	(182,457)
TOTAL EQUITY	**817,653**	573,756

Associates

There were no transactions between the parent and its associates during the year (2005: nil).

Subsidiaries

Sales to, and purchases from, related parties are made in arm's length transactions, both at normal market prices and on normal commercial terms.

	Amounts owed by related parties $'000	Amounts owed to related parties $'000
Related party		
Metcash Trading Limited		
– 2006	265,090	–
– 2005	–	906,621

	Income/(expense) $'000
Transactions with Metcash Trading Limited	
Metcash Trading Limited	
– 2006	
Acquisition of Foodland Limited	949,499
Transaction costs	(10,850)
Dividend reinvestment plan	27,734
Share options exercised	6,590
CULS	186,939
Dividend paid	(27,734)
Dividend received	31,008
Application of UIG 1052 *Tax Consolidation Accounting*	8,525
– 2005	
Acquisition of Metoz Holdings	(1,097,503)
Transaction costs	3,946
CULS	186,936

24 AUDITORS' REMUNERATION

	Metcash Group		Metcash Limited	
	2006 $	2005 $	2006 $	2005 $
Amounts received or due and receivable by Ernst & Young (Australia) for:				
– an audit or review of the financial report of the entity and any other entity in the consolidated entity	**1,623,603**	865,410	–	–
– other services in relation to the entity and any other entity in the consolidated entity				
– tax compliance	**716,000**	831,783	–	–
– assurance related	**20,000**	32,000	–	–
– other services	**29,000**	252,193	–	–
Amounts received or due and receivable by Ernst & Young (New Zealand) for:				
– an audit or review of the financial report of the entity and any other entity in the consolidated entity	–	49,500	–	–
– tax compliance	–	10,000	–	–
– other services	–	15,000	–	–
	2,388,603	2,055,886	–	–

25 DIRECTORS' AND EXECUTIVES' DISCLOSURES

Details of Key Management Personnel

Directors

Carlos S dos Santos	Non-Executive Chairman
A E (Ted) Harris, AC	Non-Executive Deputy Chairman
Andrew Reitzer	Chief Executive Officer
Bruce A Hogan, AM	Non-Executive Director
Bernard J Hale	Chief Information Officer
Mike Jablonski	Group Merchandise Director
Edwin Jankelowitz	Finance Director
Lou Jardin	CEO IGA Distribution
Richard A Longes	Non-Executive Director
V Dudley Rubin	Non-Executive Director
Mike Wesslink	CEO Australian Liquor Marketers
Peter L Barnes	Non-Executive Director

Executives

Ken Bean	CEO Group Logistics and Corporate Development
Peter Dubbelman	CEO Campbells Wholesale
John Randall	General Manager Finance and Company Secretary
David Johnston	Chief Human Resources Officer
Gary Tempany	National Group Manager Merchandise and Marketing

The Group has applied the exemption under Corporations Amendments Regulation 2006 which exempts listed companies from providing remuneration disclosures in relation to their key management personnel in their annual financial reports by Accounting Standard AASB 124 *Related Party Disclosures*. These disclosures are provided on pages 31 to 34 of the Directors' Report designated as audited.

25 DIRECTORS' AND EXECUTIVES' DISCLOSURES (continued)

Option holding of Key Management Personnel

30 April 2006	Balance at beginning of period 1 May 2005	Granted as Remuneration	Options Exercised	Other Adjustments	Balance at end of period 30 April 2006	Vested at 30 April 2006 Total	Exercisable
Directors							
C S dos Santos	–	–	–	–	–	–	–
A E Harris	–	–	–	–	–	–	–
R Longes	–	–	–	–	–	–	–
P Barnes	–	–	–	–	–	–	–
D Rubin	–	–	–	–	–	–	–
B Hogan	–	–	–	–	–	–	–
A Reitzer	680,000	1,200,000	(340,000)	–	1,540,000	340,000	340,000
M Jablonski	850,000	650,000	(680,000)	–	820,000	170,000	170,000
B Hale	850,000	650,000	–	–	1,500,000	–	–
E Jankelowitz	850,000	650,000	(680,000)	–	820,000	170,000	170,000
M Wesslink	540,000	650,000	(140,000)	–	1,050,000	400,000	400,000
L Jardin	520,000	650,000	(440,000)	–	730,000	80,000	80,000
Executives							
K Bean	540,000	400,000	(460,000)	–	480,000	80,000	80,000
J Randall	80,000	400,000	(68,000)	–	412,000	12,000	12,000
P Dubbelman	400,000	400,000	(320,000)	–	480,000	80,000	80,000
D Johnston	400,000	400,000	(240,000)	–	560,000	160,000	160,000
Total	5,710,000	6,050,000	(3,368,000)	–	8,392,000	1,492,000	1,492,000

30 April 2005	Balance at beginning of period 3 Dec 2004	Granted as Remuneration	Options Exercised	Other Adjustments	Balance at end of period 30 April 2005	Vested at 30 April 2006 Total	Exercisable
Directors							
C S dos Santos	–	–	–	–	–	–	–
A E Harris	–	–	–	–	–	–	–
R Longes	–	–	–	–	–	–	–
P Barnes	–	–	–	–	–	–	–
D Rubin	–	–	–	–	–	–	–
B Hogan	–	–	–	–	–	–	–
A Reitzer	2,100,000	–	(1,420,000)	–	680,000	–	–
M Jablonski	850,000	–	–	–	850,000	510,000	510,000
B Hale	–	850,000	–	–	850000	–	–
E Jankelowitz	850,000	–	–	–	850,000	510,000	510,000
M Wesslink	680,000	–	(140,000)	–	540,000	240,000	240,000
L Jardin	660,000	–	(140,000)	–	520,000	240,000	240,000
Executives							
K Bean	680,000	–	(140,000)	–	540,000	240,000	240,000
J Randall	80,000	–	–	–	80,000	36,000	36,000
P Dubbelman	560,000	–	(160,000)	–	400,000	240,000	240,000
D Johnston	400,000	–	–	–	400,000	240,000	240,000
Total	6,860,000	850,000	(2,000,000)	–	5,710,000	2,256,000	2,256,000

25 DIRECTORS' AND EXECUTIVES' DISCLOSURES (continued)

Shareholding of Key Management Personnel

30 April 2006	Balance at beginning of period 1 May 2005	Granted as Remuneration	On Market Trade	Options Exercised	Other Adjustments (CULS Conversion)	Balance at end of period 30 April 2006
Directors						
C S dos Santos	–	–	100	–	–	100
A E Harris	374,838	–	–	–	29,857	404,695
R Longes	112,500	–	–	–	12,500	125,000
P Barnes	151,041	–	–	–	26,042	177,083
D Rubin	–	–	4,100	–	–	4,100
B Hogan	–	–	–	–	–	–
A Reitzer	1,820,000	–	(750,000)	340,000	–	1,410,000
M Jablonski	–	–	(680,000)	680,000	–	–
B Hale	–	–	–	–	–	–
E Jankelowitz	600,000	–	(760,000)	680,000	–	520,000
M Wesslink	364,374	–	(310,000)	140,000	11,475	205,849
L Jardin	140,000	–	(140,000)	440,000	–	440,000
Executives						
K Bean	–	–	(460,000)	460,000	–	–
J Randall	256,165	–	12,846	68,000	3,738	340,749
P Dubbelman	550,350	–	(320,000)	320,000	–	550,350
D Johnston	–	–	(240,000)	240,000	–	–
Total	4,369,268	–	(3,642,954)	3,368,000	83,612	4,177,926

25 DIRECTORS' AND EXECUTIVES' DISCLOSURES (continued)

Shareholding of Key Management Personnel (continued)

30 April 2005	Balance at beginning of period 3 Dec 2004	Granted as Remuneration	On Market Trade	Options Exercised	Other Adjustments (CULS Conversion)	Balance at end of period 30 April 2005
Directors						
C S dos Santos	–	–	–	–	–	–
A E Harris	340,000	–	–	–	34,838	374,838
R Longes	100,000	–	–	–	12,500	112,500
P Barnes	125,000	–	–	–	26,041	151,041
D Rubin	–	–	–	–	–	–
B Hogan	–	–	–	–	–	–
A Reitzer	400,000	–	–	1,420,000	–	1,820,000
M Jablonski	–	–	–	–	–	–
B Hale	–	–	–	–	–	–
E Jankelowitz	600,000	–	–	–	–	600,000
M Wesslink	425,000	–	–	(70,000)	9,374	364,374
L Jardin	–	–	–	140,000	–	140,000
Executives						
K Bean	–	–	–	–	–	–
J Randall	180,000	–	–	60,000	16,165	256,165
P Dubbelman	390,350	–	–	160,000	–	550,350
D Johnston	–	–	–	–	–	–
Total	2,560,350	–	–	2,030,000	98,918	4,369,268

Other transactions with Key Management Personnel

Mr Barnes is Chairman of Samuel Smith and Sons Pty Ltd and a Director of Ansell, both organisations are suppliers to the entity. However, the total level of purchases from both companies is less than 1% of Metcash's annual purchases and is not considered material.

26 TRANSITION TO AIFRS

For all periods up to and including the year ended 30 April 2005, the Group prepared its financial statements in accordance with Australian Generally Accepted Accounting Principles (AGAAP). These financial statements for the year ended 30 April 2006 are the first the Group is required to prepare in accordance with Australian equivalents to International Financial Recording Standards (AIFRS). Accordingly, the Group has prepared financial statements that comply with AIFRS applicable for periods beginning on or after 1 January 2005 and the significant accounting policies meeting those requirements are described in note 2. In preparing these financial statements the Group has started from an opening balance sheet as at 1 May 2004, the Group's date of transition to AIFRS, and made changes in accounting policies and other restatements required by AASB 1 *First-Time Adoption of AIFRS*.

This note explains the principal adjustments made by the Group in restating its AGAAP balance sheet as at 1 May 2004 and its previously published AGAAP financial statements for the year ended 30 April 2005.

(i) Reconciliation of total equity as presented under AGAAP to that under AIFRS

Metcash Group

	30 April 2005 $'000	1 May 2004 $'000
Total equity under AGAAP	1,522,464	470,155
Adjustments to equity:		
Reverse acquisition (a)	(1,524,799)	–
Write-back of goodwill amortisation (b)	27,022	–
Unrealised rebates adjusted to inventory (c)	(9,006)	(9,510)
CULS amortisation (d)	(9,098)	–
Tax effect of the above adjustments (e)	2,702	2,853
Total equity under AIFRS	9,285	463,498
Tasman Liquor prior period error, net of tax (f)	(4,820)	(3,376)
Total equity under AIFRS and with prior year adjustment	4,465	460,122

(a) The acquisition by Metcash Ltd of Metcash Trading Limited is treated as a reverse acquisition since the substance of the transaction is that the shareholders of Metcash Trading Limited have, through Metcash Ltd, effectively acquired Metoz Holdings Limited.

(b) Goodwill is not amortised under AASB 3 *Business Combinations*, but was amortised under AGAAP.

(c) AASB 118 *Revenue* and UIG 1002 *Inventory Rebates and Settlement Discounts* require rebates to be deducted from the cost of inventory.

(d) In line with AASB 139 *Financial Instruments: Presentation and Disclosure*, the redemption premium associated with the CULS is required to be accrued over the life of the instrument.

(e) The tax effect of adjustment in (c) has led to an increase in the deferred tax liability.

(f) Prior period error: This adjustment relates to prior period errors under the previous reporting framework and does not relate to differences between the two frameworks (refer to notes 2 (xxvii) and 3 for further details).

26 TRANSITION TO AIFRS (continued)

(ii) Reconciliation of profit after tax under AGAAP to that under AIFRS

Metcash Group

	Year ended 30 April 2005 $'000
Profit after tax MTS for 1 month – as previously reported	6,632
Profit after tax MTT for 11 months – Reverse acquisition (a)	103,580
Profit after tax – MTT/MTS for the 12 months as per April 2005 4E	110,212
Cost of share-based payments (b)	(187)
Write-back of goodwill amortisation (c)	27,022
Unrealised rebates adjusted to inventory (d)	483
CULS amortisation (e)	(9,098)
Tax effect of the above adjustment in (d)	(145)
Profit after tax under AIFRS	128,287
Tasman Liquor prior period error, net of tax (g)	(1,444)
Profit after tax under AIFRS and with prior year adjustment	126,843

(a) The acquisition by Metcash Ltd of Metcash Trading Limited is treated as a reverse acquisition since the substance of the transaction is that the shareholders of Metcash Trading Limited have, through Metcash Ltd, effectively acquired Metoz Holdings Limited.

(b) Under AASB 2 *Share-Based Payments*, costs of equity-settled share-based payment transactions are recognised as expenses with a correspondent increase in equity.

(c) Goodwill is not amortised under AASB 3 *Business Combinations*, but was amortised under AGAAP.

(d) AASB 118 *Revenue* and UIG 1002 *Inventory Rebates and Settlement Discounts* require rebates to be deducted from the cost of inventory.

(e) In line with AASB 139 *Financial Instruments: Presentation and Disclosure*, the redemption premium associated with the CULS is required to be accrued over the life of the instrument.

(f) The tax effect of adjustment (d) led to an increase in the deferred tax liability.

(g) Prior period error: This adjustment relates to prior period errors under the previous reporting framework and does not relate to differences between the two frameworks (refer to notes 2 (xxvii) and 3 for further details).

(iii) Explanation of material adjustments to the cash flow statements

There are no material differences between the cash flow statements presented under AIFRS and those presented under AGAAP.

26 TRANSITION TO AIFRS (continued)

Balance Sheet reflecting reconciliation of adjustments to AIFRS as at 30 April 2005

		Metcash Group			Metcash Limited		
	Notes	AGAAP[1] $'000	AIFRS Impact $'000	AIFRS $'000	AGAAP $'000	AIFRS Impact $'000	AIFRS $'000
Assets							
Current Assets							
Cash and cash equivalents		189,607	–	189,607	–	–	–
Trade and other receivables		648,006	–	648,006	–	–	–
Inventories	a, c	394,686	(9,212)	385,474	–	–	–
Prepayments	b	9,707	(5,544)	4,163	–	–	–
Sub-total		1,242,006	(14,756)	1,227,250	–	–	–
Assets classified as held for sale	c	–	206	206	–	–	–
Total Current Assets		1,242,006	(14,550)	1,227,456	–	–	–
Non-Current Assets							
Receivables		29,814	–	29,814	–	–	–
Investments in associates		2,450	–	2,450	–	–	–
Other financial assets		4,121	–	4,121	2,242,229	–	2,242,229
Property, plant and equipment	d	129,073	(52,059)	77,014	–	–	–
Deferred tax assets	e	7,981	21,046	29,027	–	–	–
Intangible assets and goodwill	d, f, h	1,771,818	(1,445,718)	326,100	–	–	–
Other assets	b	13,568	(13,568)	–	–	–	–
Total Non-Current Assets		1,958,825	(1,490,299)	468,526	2,242,229	–	2,242,229
Total Assets		3,200,831	(1,504,845)	1,695,982	2,242,229	–	2,242,229
Liabilities							
Current Liabilities							
Payables		826,879	–	826,879	906,621	–	906,621
Interest-bearing liabilities		7,995	–	7,995	–	–	–
Income tax payable		22,156	–	22,156	–	–	–
Provisions		30,977	–	30,977	–	–	–
Sub-total		888,007	–	888,007	906,621	–	906,621
Liabilities directly associated with assets classified as held for sale		–		–	–	–	–
Total Current Liabilities		888,007	–	888,007	906,621	–	906,621

1. Represents previously published AGAAP financial statements for the year ended 30 April 2005 restated for the prior period error as disclosed in notes 2 (xxvii) and 3.

26 TRANSITION TO AIFRS (continued)

Balance Sheet reflecting reconciliation of adjustments to AIFRS as at 30 April 2005 (continued)

		Metcash Group			Metcash Limited		
	Notes	AGAAP[1] $'000	AIFRS Impact $'000	AIFRS $'000	AGAAP $'000	AIFRS Impact $'000	AIFRS $'000
Non-current liabilities							
Interest-bearing liabilities	b	352,469	(11,221)	341,248	–	–	–
CULS	b, g	373,873	1,207	375,080	–	–	–
CUPS		50,000		50,000	–	–	–
Deferred tax liability	e	–	18,344	18,344	–	–	–
Provisions		18,838	–	18,838	–	–	–
Total Non-Current Liabilities		795,180	8,330	803,510	–	–	–
Total Liabilities		1,683,187	8,330	1,691,517	906,621	–	906,621
Net Assets		1,517,644	(1,513,179)	4,465	1,335,608	–	1,335,608
Contributed Equity	h	1,518,599	(671,623)	846,976	1,335,608	16	1,335,624
Other Equity	h	–	(765,923)	(765,923)	–	–	–
Reserves	h, i	(2,767)	16,930	14,163	–	–	–
Retained Earnings	a, e, f, g, h, i	1,812	(92,563)	(90,751)	–	(16)	(16)
Total Equity		1,517,644	(1,513,179)	4,465	1,335,608	–	1,335,608

1. Represents previously published AGAAP financial statements for the year ended 30 April 2005 restated for the prior period error as disclosed in notes 2 (xxvii) and 3.

26 TRANSITION TO AIFRS (continued)

Balance Sheet reflecting reconciliation of adjustments to AIFRS as at 1 May 2004

		Metcash Group			Metcash Limited		
	Notes	AGAAP[1] $'000	AIFRS Impact $'000	AIFRS $'000	AGAAP $'000	AIFRS Impact $'000	AIFRS $'000
Assets							
Current assets							
Cash assets		33,651	–	33,651	20,002	–	20,002
Receivables		658,365	–	658,365	243,307	–	243,307
Inventories	a	395,684	(9,510)	386,174	–	–	–
Prepayments		8,238	–	8,238	1,145	–	1,145
Total current assets		1,095,938	–	1,086,428	264,454	–	264,454
Non-current assets							
Receivables		9,655	–	9,655	–	–	–
Investments in associates		1,112	–	1,112	–	–	–
Other financial assets		840	–	840	476,882	–	476,882
Property, plant and equipment	d	130,174	(66,848)	63,326	4,170	–	4,170
Deferred tax assets	e	4,511	2,853	7,364	–	–	–
Other		–	–	–	–	–	–
Intangible assets and goodwill	d	243,092	66,848	309,940	–	–	–
Total non-current assets		389,384	–	392,237	481,052	–	481,052
Total assets		1,485,322	–	1,478,665	745,506	–	745,506
Liabilities							
Current liabilities							
Payables		884,055	–	884,055	109,939	–	109,939
Interest-bearing liabilities		52,567	–	52,567	45,000	–	45,000
Income tax payable		13,617	–	13,617	–	–	–
Provisions		32,380	–	32,380	–	–	–
Total current liabilities		982,619	–	982,619	154,939	–	154,939

1. Represents previously published AGAAP financial statements for the year ended 30 April 2004 restated for the prior period error as disclosed in notes 2 (xxvii) and 3.

26 TRANSITION TO AIFRS (continued)

Balance Sheet reflecting reconciliation of adjustments to AIFRS as at 1 May 2004 (continued)

		Metcash Group			Metcash Limited		
	Notes	AGAAP[1] $'000	AIFRS Impact $'000	AIFRS $'000	AGAAP $'000	AIFRS Impact $'000	AIFRS $'000
Non-current liabilities							
Interest-bearing liabilities		16,576	–	16,576	–	–	–
Non-interest-bearing liabilities		–	–	–	–	–	–
Provisions		19,348	–	19,348	–	–	–
Total non-current liabilities		35,924	–	35,924	–	–	–
Total liabilities		1,018,543	–	1,018,543	154,939	–	154,939
Net assets		466,779	–	460,122	590,567	–	590,567
Equity							
Parent entity interest						–	
Contributed equity		562,163	–	562,163	562,163	–	562,163
Other equity	i	–	37	37	–	37	37
Reserves		12,592	–	12,592	57,613	–	57,613
Retained profits	a, e, i	(107,976)	(6,694)	(114,670)	(29,209)	(37)	(29,246)
Total parent entity interest in equity		466,779	–	460,122	590,567	–	590,567
Total equity		466,779	–	460,122	590,567	–	590,567

1. Represents previously published AGAAP financial statements for the year ended 30 April 2004 restated for the prior period error as disclosed in notes 2 (xxvii) and 3.

26 TRANSITION TO AIFRS (continued)

Income Statement for the year ended 30 April 2005

	Notes	Metcash Group AGAAP[1] $'000	Metcash Group AIFRS Impact $'000	Metcash Group AIFRS $'000	Metcash Limited AGAAP $'000	Metcash Limited AIFRS Impact $'000	Metcash Limited AIFRS $'000
Sales revenue	h	512,096	6,478,898	6,990,994	–	–	–
Revenue from suppliers	h	–	454,085	454,085	–	–	
Cost of sales	h	(506,199)	(6,346,006)	(6,852,205)	–	–	–
Gross Profit	h	5,897	586,977	592,874	–	–	–
Other revenues from ordinary activities	h	55,259	8,170	63,429	–	–	–
Share of associates and joint venture using equity method	h	40	233	273	–	–	–
Warehouse and Distribution expenses	a, h	(18,480)	(207,454)	(225,934)	–	–	–
Selling, general and administration expenses	h, i	(30,029)	(198,319)	(228,348)	–	(16)	(16)
Borrowing costs expensed	h	(2,139)	(5,911)	(8,050)	–	–	–
Amortisation of share issue costs	g	–	(1,998)	(1,998)	–	–	–
Amortisation of 50% CULS redemption premium	g	–	(7,100)	(7,100)	–	–	–
Profit before income tax		10,548	174,598	185,146	–	–	(16)
Income tax expense	e, h	(5,360)	(52,943)	(58,303)	–	–	–
Profit after tax							
Net profit for the period		5,188	121,655	126,843	–	–	(16)

Note: Retained earnings is adjusted back to Metcash Trading Limited at April 2005 because of reverse acquisition.

(MTT now is in fact the parent for Metcash Group.)

1. Represents previously published AGAAP financial statements for the year ended 30 April 2005 restated for the prior period error as disclosed in notes 2 (xxvii) and 3.

26 TRANSITION TO AIFRS (continued)

Impact of adopting AIFRS

				Impact	
Reference	**Item**	**AGAAP**	**AIFRS**	**Consolidated**	**Parent**
a.	Inventories	Rebate and co-operative income treated as other income.	Under AASB 118 *Revenue* and UIG 1002 *Inventory Rebates and Settlement Discounts* require rebates to be deducted from the cost of inventory.	Equity at transition: Decrease to retained earnings and inventories of $9,510,000. Equity at 30 April 2005: Decrease to retained earnings and inventories of $9,006,000. Profit for 30 April 2005: Increase to profit of $483,000.	Equity at transition: No effect. Equity at 30 April 2005: No effect. Profit for 30 April 2005: No effect.
b.	Other Assets Interest Bearing Liabilities	Reclass not required.	Under AASB 139 *Financial Instruments: Measurement and Disclosure*, when a financial asset or financial liability is recognised initially, it is measured at its fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. Accordingly, these assets have been reclassed as transaction costs and therefore offset against the corresponding liability.	Equity at transition: No effect. Equity at 30 April 2005: Decrease in current ($5,544,000) and non-current ($5,677,000) other assets and interest-bearing liabilities of $11,221,000. Net effect is nil. Decrease in non-current other assets and CULS of $7,891,000. Net effect nil. Profit for 30 April 2005: $187,000 increase.	Equity at transition: No effect. Equity at 30 April 2005: No effect. Profit for 30 April 2005: No effect.
c.	Assets held for sale	AASB 1042 *Discontinuing Operations* does not include a held for sale classification requirement, so no such disclosure is required.	AASB 5.38 *Non-current Assets Held for Sale and Discontinued Operations* requires the separate presentation in the balance sheet of non-current assets classified as held for sale.	Equity at transition: No effect. Equity at 30 April 2005: Decrease in inventory and increase in asset held for sale of $206,000. Net effect is nil. Profit for 30 April 2005: No effect.	Equity at transition: No effect. Equity at 30 April 2005: No effect. Profit for 30 April 2005: No effect.

26 TRANSITION TO AIFRS (continued)

Reference	Item	AGAAP	AIFRS	Impact Consolidated	Parent
d.	Property, Plant and Equipment Intangible Assets	Computer software was classified as Property, Plant and Equipment (P,P&E).	Under AASB 138 *Intangible Assets*, computer software is classified as an intangible asset. Therefore, computer software has been reclassified from P,P&E to Intangible assets.	Equity at transition: Decrease to P,P&E and increase to Intangibles of $66,848,000. Net effect is zero. Equity at 30 April 2005: Decrease to P,P&E and increase to Intangibles of $52,059,000. Net effect is zero. Profit for 30 April 2005: No effect.	Equity at transition: No effect. Equity at 30 April 2005: No effect. Profit for 30 April 2005: No effect.
e.	Deferred Tax Assets and Liabilities	No effect.	AASB 112 *Income Taxes* does not allow for the offsetting of deferred tax assets and liabilities.	Equity at transition: Net increase in Deferred Tax Asset and increase in retained earnings of $2,853,000. Equity at 30 April 2005: Net increase in Deferred Tax Asset ($21,046,000) and Deferred Tax Liability ($18,344,000); and increase in retained earnings of $2,702,000. Profit for 30 April 2005: Decrease in profit of $145,000.	Equity at transition: No effect. Equity at 30 April 2005: No effect. Profit for 30 April 2005: No effect.
f.	Business Combination and Goodwill	Goodwill was amortised over its useful life (not exceeding 20 years).	Under AASB 136 goodwill is subject to annual impairment testing and amortisation of goodwill is strictly prohibited. An adjustment is thus required to reverse the amortisation charge for 30 April 2005.	Equity at transition: No effect. Equity at 30 April 2005: Increase in retained earnings and increase to goodwill of $27,022,000. Profit for 30 April 2005: Increase to profit of $27,022,000.	Equity at transition: No effect. Equity at 30 April 2005: No effect. Profit for 30 April 2005: No effect.
g.	CULS	No effect.	In line with AASB 139 *Financial Instruments: Presentation and Disclosure*, the redemption premium and issue costs associated with the CULS is required to be accrued over the life of the instrument.	Equity at transition: No effect. Equity at 30 April 2005: Increase in CULS and decrease in retained earnings of $9,098,000. Profit for 30 April 2005: Decrease to profit of $9,098,000.	Equity at transition: No effect. Equity at 30 April 2005: No effect. Profit for 30 April 2005: No effect.

26 TRANSITION TO AIFRS (continued)

Reference	Item	AGAAP	AIFRS	Impact: Consolidated	Impact: Parent
h.	Reverse acquisition	No effect.	In accordance with AASB 3 *Business Combinations*, when Metcash Limited (the legal parent) acquired the Metoz group (being Metoz Holdings Limited and its controlled entities including Metcash Trading Limited) (the legal subsidiary), the acquisition was deemed to be a reverse acquisition since the substance of the transaction is that the existing public shareholders of Metcash Trading Limited have, through Metcash Limited, effectively acquired Metoz Holdings. Under reverse acquisition accounting, the consolidated financial statements are prepared as if Metcash Trading Limited had acquired Metcash Limited and its controlled entities, not vice versa as represented by the legal position.	Equity at transition: No effect. Equity at 30 April 2005: Decrease in intangibles of $1,524,799,000; net decrease in Equity and Reserves of $1,420,840,000; and decrease in retained earnings of $103,959,000. Profit for 30 April 2005: Increase to profit of $103,580,000.	Equity at transition: No effect. Equity at 30 April 2005: No effect. Profit for 30 April 2005: No effect.
i.	Share-based payments	Share-based payments were not required to be expensed.	AASB 2: *Share-Based Payments* requires entities to recognise an expense in relation to shares, options, and other equity instruments provided to employees (including directors). These share-based payment transactions must be fair valued at grant date and recognised as an expense in profit or loss evenly over the vesting period.	Equity at transition: Increase in equity and decrease in retained earnings of $37,000. Equity at 30 April 2005: Increase in reserves and decrease in retained earnings of $224,000. Profit for 30 April 2005: Decrease to profit of $187,000.	Equity at transition: Increase in equity and decrease in retained earnings of $37,000. Equity at 30 April 2005: Increase in equity and decrease in retained earnings of $16,000. Profit for 30 April 2005: Decrease to profit of $16,000.

27 BUSINESS COMBINATIONS

Acquisition of Foodland Associated Limited (FAL)

On 2 November 2005, Metcash acquired Foodland Associated Limited's demerged Australian business. FAL's trading results from 2 November, when economic benefits passed to Metcash, are included in Metcash results for the year. The total cost of the combination was $1,007 million and comprised an issue of equity instruments, cash and transaction costs directly attributable to the combination. Metcash issued 234,444,195 shares with a fair value of $4.05 each, based on the quoted price of the shares at the date economic benefits passed to Metcash. The fair value of the identifiable assets and liabilities of FAL as at the date of acquisition are:

	Recognised on acquisition $'000	Carrying value per FAL $'000
Property, plant and equipment	61,305	69,344
Deferred income tax asset	3,787	3,787
Cash and cash equivalent	8,726	8,726
Trade receivables	94,678	107,728
Inventories	117,648	122,244
Intangibles – Goodwill	–	173,503
Intangibles – Contractual Customer Relationships	148,000	–
Assets – held for sale	185,299	161,161
	619,443	646,493
Trade Payables	136,367	134,249
Provisions	11,294	10,155
Deferred income tax liability	–	10,940
Liabilities – held for sale	49,655	49,655
	197,316	204,999
Fair value of net assets	422,127	441,242
Goodwill arising on acquisition	585,260	
	1,007,387	
Consideration		
Shares issued at fair value	949,499	
Cash consideration paid	39,916	
Costs associated with the acquisition	17,972	
Total consideration	1,007,387	
The cash outflow on acquisition is as follows:		
Net cash acquired with subsidiary	8,726	
Cash paid	57,888	
Net cash outflow	49,162	

From the date of acquisition, FAL has contributed $14,510,000 to the net profit of the Group.

28 EARNINGS PER SHARE

	2006 $'000	2005 $'000
The following reflects the income and share data used in the basic and diluted earnings per share computations:		
Net profit attributable to ordinary equity holders of Metcash Limited	81,178	126,843
Adjustments:		
Earnings used in calculating basic and diluted earnings per share	81,178	126,843
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	593,675,382	427,395,233
Effect of dilutive securities		
Share options	6,960,035	7,463,643
Convertible, redeemable, subordinated, unsecured loan notes (CULS)	–	16,430,215
Weighted average number of ordinary shares used in calculating dilutive earnings per share	600,635,417	451,289,091

Note: Under AIFRS, the comparative EPS (2005) is calculated, under the reverse acquisition rules, using MTS shares at the close (30 April 2005). This has impacted on EPS reported by 14.4 cents compared with EPS under AGAAP. Basic EPS under AGAAP was 15.3 cents and diluted EPS was 15.1 cents.

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of these financial statements.

29 ASSETS CLASSIFIED AS HELD FOR SALE

	Metcash Group		Metcash Limited	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Assets classified as held for sale	185,505	206	–	–
Liabilities directly associated with assets held for sale	49,655	–	–	–

Available for sale investments consist of Action stores (on acquisition of Foodland) expected to be sold in the next 12 months.

The fair value of the Action stores have been estimated using valuation techniques based on turnover, market prices or rates. Management believes the estimated fair values resulting from the valuation techniques and recorded in the balance sheet are reasonable and most appropriate as at the balance sheet date.

30 SUBSEQUENT EVENTS

There are no subsequent events which impact the results.

31 CONTINGENT LIABILITIES

	Metcash Group		Metcash Limited	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
A controlled entity has guaranteed third party loans to storeowners amounting to	1,580	1,580	–	–
The Company and certain controlled entities have granted Bank guarantees to third parties in respect of property lease obligations to the value of	19,242	18,991	–	–
The Company and certain controlled entities have granted Bank guarantees in respect of Workcover in WA	4,900	–	–	–

Franklins

Following the termination of the Franklins contract in January 2005, Franklins has alleged that Metcash owes it various sums in respect of the supply contract. Franklins has commenced proceedings seeking as yet unquantified damages in respect of certain of the alleged claims. Metcash does not consider that Franklins has any valid claim against it. Should Franklins proceed with any of these alleged claims, they will be vigorously defended by Metcash.

DIRECTORS' DECLARATION

YEAR ENDED 30 APRIL 2006

The Directors of the Company declare that:

1. the financial statements and notes, as set out on pages 36 to 92 and the additional disclosures included in the Directors' report designated as audited, are in accordance with the Corporations Act 2001 and:
   (a) comply with Accounting Standards and the Corporations Regulations 2001; and
   (b) give a true and fair view of the financial position as at 30 April 2006 and of the performance for the year ended on that date of the Company and the consolidated entity;
2. the Chief Executive Officer and Chief Financial Officer have each declared that:
   (a) the financial records of the economic entity for the financial year have been properly maintained in accordance with section 286 of the Corporations Act 2001;
   (b) the financial statements and notes for the financial year comply with the Accounting Standards; and
   (c) the financial statements and notes for the financial year give a true and fair view;
3. in the Directors' opinion, there are reasonable grounds to believe that the economic entity will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors.

Andrew Reitzer
Director

Sydney, 17 July 2006

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Auditor's Independence Declaration to the Directors of Metcash Limited

In relation to our audit of the financial report of Metcash Limited for the financial year ended 30 April 2006, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.

Ernst & Young

Neil Wykes
Partner
Date: 17 July 2006

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Independent audit report to members of Metcash Limited

Scope

The financial report, remuneration disclosures and directors' responsibility

The financial report comprises the balance sheet, income statement, statement of changes in equity, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for Metcash Limited (the company) and the consolidated entity, for the year ended 30 April 2006. The consolidated entity comprises both the company and the entities it controlled during that year.

The company has disclosed information as required by paragraphs Aus 25.4 to Aus 25.7.2 of Accounting Standard 124 *Related Party Disclosures* ("remuneration disclosures"), under the heading "Remuneration Report" on pages 31 to 34 of the directors' report, as permitted by Corporations Regulation 2M.6.04.

The directors of the company are responsible for preparing a financial report that gives a true and fair view of the financial position and performance of the company and the consolidated entity, and that complies with Accounting Standards in Australia, in accordance with the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report. The directors are also responsible for the remuneration disclosures contained in the directors' report.

Audit approach

We conducted an independent audit of the financial report in order to express an opinion to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement and the remuneration disclosures comply with Accounting Standard AASB 124 *Related Party Disclosures*. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001*, including compliance with Accounting Standards in Australia, and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations and cash flows and whether the remuneration disclosures comply with Accounting Standard AASB 124 *Related Party Disclosures*.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report and the remuneration disclosures; and

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- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

We performed procedures to assess whether the substance of business transactions was accurately reflected in the financial report and the remuneration disclosures. These and our other procedures did not include consideration or judgement of the appropriateness or reasonableness of the business plans or strategies adopted by the directors and management of the company.

Independence

We are independent of the company and the consolidated entity and have met the independence requirements of Australian professional ethical pronouncements and 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. In addition to our audit of the financial report and the remuneration disclosures, we were engaged to undertake the services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.

Audit opinion

In our opinion:

1. the financial report of Metcash Limited is in accordance with:

(a) the *Corporations Act 2001*, including:

   (i) giving a true and fair view of the financial position of Metcash Limited and the consolidated entity at 30 April 2006 and of their performance for the year ended on that date; and

   (ii) complying with Accounting Standards in Australia and the *Corporations Regulations 2001*; and

(b) other mandatory financial reporting requirements in Australia.

2. the remuneration disclosures that are contained on pages 31 to 34 of the directors' report comply with Accounting Standard AASB 124 *Related Party Disclosures*.

Ernst & Young

Neil Wykes
Partner
Sydney
Date: 17 July 2006

ASX ADDITIONAL INFORMATION

YEAR ENDED 30 APRIL 2006

Additional information required by the Australian Stock Exchange and not shown elsewhere in this report is as follows.

The information is current as at 7 July 2006.

(a) Distribution of equity securities

The number of shareholders, by size of holding, in each class of share are:

Size of holding	Number of shareholders
1-1,000	3,408
1,001-5,000	10,595
5,001-10,000	3,517
10,001-100,000	2,608
100,001-9,999,999,999	172
Total	20,300

(b) Twenty largest shareholders

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

Name	Number of shares	Percentage of ordinary shares
J P Morgan Nominees Australia Limited	137,425,809	18.372
Westpac Custodian Nominees Limited	129,263,564	17.281
National Nominees Limited	82,968,120	11.092
Queensland Investment Corporation	48,447,428	6.477
Westpac Financial Services Limited	25,395,187	3.395
Cogent Nominees Pty Limited	19,391,529	2.592
Citicorp Nominees Pty Limited	18,652,576	2.494
ANZ Nominees Limited <Cash Income A/C>	16,654,757	2.226
ANZ Nominees Limited <Income Reinvest Plan A/C>	14,091,687	1.884
RBC Dexia Investor Services Australia Nominees Pty Limited <PIPOOLED A/C>	11,496,930	1.537
UBS Nominees Pty Ltd	8,580,580	1.147
HSBC Custody Nominees (Australia) Limited	7,650,613	1.023
RBC Dexia Investor Services Australia Nominees Pty Limited <BKCUST A/C>	7,413,196	0.991
Victorian Workcover Authority	6,837,724	0.914
IAG Nominees Pty Limited	6,699,163	0.896
AMP Life Limited	6,018,726	0.805
Citicorp Nominees Pty Limited <CFSIL CWLTH AUST SHS 18 A/C>	5,558,200	0.743
Citicorp Nominees Pty Limited <CFSIL CWLTH BOFF SUPER A/C>	5,337,232	0.714
UBS Wealth Management Australia Nominees Pty Ltd	4,379,572	0.585
Westpac Life Insurance Services Limited	4,281,541	0.572
	566,544,134	75.738

(c) Substantial shareholders

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

	Number of shares
Perennial Investment Partners Limited (PIPL)	85,366,361
Westpac Banking Corporation	81,623,507
Lazard Asset Management Pacific Co	53,105,989
Deutsche Bank AG	52,538,587
Queensland Investment Corporation	45,401,633

(d) Voting rights

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