

Financial statements



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Income statement

for the year ended 30 June 2006 - Wesfarmers Limited and its controlled entities

	Note	CONSOLIDATED		PARENT	
		2006 \$000	2005 \$000	2006 \$000	2005 \$000
Revenue					
Sale of goods		7,610,595	6,912,377	159,644	140,812
Rendering of services		1,207,696	1,188,735	60,413	56,118
Interest - subsidiaries		-	-	8,825	9,999
Interest - other		35,244	52,776	2,373	2,542
Dividends - subsidiaries		-	-	1,007,749	630,896
Dividends - other		786	850	-	-
Other		4,480	3,893	4,595	4,589
		8,858,801	8,158,631	1,243,599	844,956
Cost of sales		(4,823,434)	(4,517,284)	(93,882)	(82,618)
Direct service expenses		(794,645)	(798,340)	(60,879)	(56,584)
Gross profit		3,240,722	2,843,007	1,088,838	705,754
Gain on sale of shares in associate (tax effect of \$56,153,000)		234,859	-	-	-
Other income	4	4,896	8,722	721	102
Distribution expenses		(198,145)	(189,471)	-	-
Sales and marketing expenses		(1,277,053)	(1,222,676)	-	-
Administrative expenses		(374,838)	(339,023)	(50,347)	(59,802)
Other expenses		(86,447)	(83,277)	-	(10,541)
Finance costs	4	(133,837)	(104,176)	(116,318)	(99,108)
Share of profits and losses of associates	14	56,898	53,528	-	-
Profit before income tax		1,467,055	966,634	922,894	536,405
Income tax (expense)/credit	5	(418,913)	(264,797)	45,966	50,200
Profit after tax from continuing operations		1,048,142	701,837	968,860	586,605
Profit attributable to minority interests		-	-	-	-
Profit attributable to members of the parent		1,048,142	701,837	968,860	586,605
Earnings per share (cents per share)	6				
- basic for profit for the year attributable to ordinary equity holders of the parent		284.0	192.0		
- diluted for profit for the year attributable to ordinary equity holders of the parent		280.9	189.4		
- basic for profit for the year attributable to ordinary equity holders of the parent before gain on sale of associate		235.6	192.0		
- diluted for profit for the year attributable to ordinary equity holders of the parent before gain on sale of associate		233.0	189.4		
Dividends per share paid or declared out of profits for the year (cents per share)	7	215	180		

Balance sheet

at 30 June 2006 - Wesfarmers Limited and its controlled entities

	Note	CONSOLIDATED		PARENT	
		2006 \$000	2005 \$000	2006 \$000	2005 \$000
ASSETS					
Current assets					
Cash and cash equivalents	8	90,046	83,846	33,292	27,601
Trade and other receivables	9	1,194,632	1,204,980	1,341,459	2,190,956
Inventories	10	1,146,398	1,149,647	-	-
Derivatives	26	43,776	-	47,064	-
Other insurance assets	11	658,740	633,894	-	-
Total current assets		3,133,592	3,072,367	1,421,815	2,218,557
Non-current assets					
Receivables	9	113,562	70,349	5,262	128
Available-for-sale investments	12	5,755	11,092	-	-
Other financial assets	13	-	-	2,934,110	4,403,187
Investment in associates	14	279,213	439,464	-	-
Deferred tax assets	5	84,922	105,002	6,333	12,788
Property, plant and equipment	15	2,396,236	1,988,229	24,750	23,478
Goodwill	16	1,470,212	1,466,266	-	-
Derivatives	26	31,655	-	33,509	-
Total non-current assets		4,381,555	4,080,402	3,003,964	4,439,581
Total assets		7,515,147	7,152,769	4,425,779	6,658,138
LIABILITIES					
Current liabilities					
Trade and other payables	17	752,908	777,024	16,797	2,493,436
Interest-bearing loans and borrowings	18	468,038	574,906	321,145	428,445
Income tax payable		213,708	99,067	231,652	106,175
Provisions	19	141,120	173,862	5,882	24,758
Derivatives	26	4,171	-	46,826	-
Insurance liabilities	20	873,917	836,580	30,762	18,034
Other	21	124,614	79,960	-	-
Total current liabilities		2,578,476	2,541,399	653,064	3,070,848
Non-current liabilities					
Payables	17	4,352	15,204	-	-
Interest-bearing loans and borrowings	18	1,074,875	1,225,104	1,071,118	1,220,345
Deferred tax liabilities	5	142,257	143,407	481	91
Provisions	19	258,778	228,351	9,846	7,333
Derivatives	26	7,966	-	35,956	-
Insurance liabilities	20	225,417	195,245	-	-
Other	21	57,027	61,858	-	-
Total non-current liabilities		1,770,672	1,869,169	1,117,401	1,227,769
Total liabilities		4,349,148	4,410,568	1,770,465	4,298,617
Net assets		3,165,999	2,742,201	2,655,314	2,359,521
EQUITY					
Equity attributable to equity holders of the parent					
Contributed equity	22	1,901,522	1,901,164	1,895,261	1,895,261
Employee reserved shares	22	(159,492)	(215,354)	(152,002)	(204,512)
Retained earnings		1,233,898	915,573	800,848	557,829
Reserves	23	190,019	140,766	111,207	110,943
Parent interests		3,165,947	2,742,149	2,655,314	2,359,521
Minority interests	24	52	52	-	-
Total equity		3,165,999	2,742,201	2,655,314	2,359,521

Cash flow statement

for the year ended 30 June 2006 - Wesfarmers Limited and its controlled entities

	Note	CONSOLIDATED		PARENT	
		2006 \$000	2005 \$000	2006 \$000	2005 \$000
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers		9,626,613	9,081,164	165,512	178,110
Payments to suppliers and employees		(8,148,290)	(7,825,273)	(161,556)	(148,692)
Dividends received from subsidiaries		-	-	1,007,749	630,896
Dividends and distributions received from associates		44,238	24,745	-	-
Dividends received from others		786	850	-	-
Interest received		35,244	53,951	11,198	12,541
Borrowing costs		(122,317)	(104,145)	(116,318)	(99,108)
Income tax paid		(307,220)	(296,342)	(296,121)	(260,904)
Reimbursements received from tax consolidated entities		-	-	322,604	289,715
Net cash flows from operating activities	8	1,129,054	934,950	933,068	602,558
CASH FLOWS FROM INVESTING ACTIVITIES					
Net redemption (acquisition) of insurance deposits	11	(24,465)	94,285	-	-
Purchase of property, plant and equipment	15	(614,781)	(465,260)	(3,248)	(2,074)
Proceeds from sale of property, plant and equipment		16,399	35,817	1,091	274
Proceeds from sale of available-for-sale financial assets		7,482	-	-	-
Subscription of capital in associates		(16,999)	(25,662)	-	-
Proceeds from sale of investment in associate		430,719	-	-	-
Return of capital received from associates		3,303	5,376	-	-
Repayment of loans from associates		1,350	7,700	-	-
Purchase of subsidiary, net of cash acquired		(1,470)	-	-	-
Net advances/(repayments) to subsidiaries		-	-	599	(52,038)
Other		(2,468)	5,178	-	(3,808)
Net cash flows used in investing activities		(200,930)	(342,566)	(1,558)	(57,646)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from borrowings		28,752	286,007	10,015	264,865
Repayment of borrowings		(279,626)	(60,454)	(263,187)	-
Proceeds from exercise of in-substance options under the employee share plan	22	36,496	98,040	35,022	95,791
Equity dividends paid		(707,669)	(528,189)	(707,669)	(528,189)
Payment of return of capital	22	-	(366,473)	-	(366,473)
Net cash flows used in financing activities		(922,047)	(571,069)	(925,819)	(534,006)
Net increase in cash and cash equivalents		6,077	21,315	5,691	10,906
Cash and cash equivalents at beginning of year		77,038	55,723	27,601	16,695
Cash and cash equivalents at end of year	8	83,115	77,038	33,292	27,601

Statement of changes in equity

for the year ended 30 June 2006 - Wesfarmers Limited and its controlled entities

CONSOLIDATED	Note	ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT					MINORITY INTEREST \$000	TOTAL EQUITY \$000
		ISSUED CAPITAL \$000	EMPLOYEE RESERVED SHARES \$000	RETAINED EARNINGS \$000	RESERVES (NOTE 23) \$000	TOTAL \$000		
Balance at 1 July 2004		2,214,772	(281,428)	818,870	155,868	2,908,082	(47)	2,908,035
Change in accounting policy	2(a-f)	-	-	(58,525)	-	(58,525)	-	(58,525)
Restated balance at 1 July 2004		2,214,772	(281,428)	760,345	155,868	2,849,557	(47)	2,849,510
Foreign currency translation differences		-	(136)	-	2,176	2,040	-	2,040
Tax losses reversed in relation to the 2001 simplification plan	23	-	-	-	(17,225)	(17,225)	-	(17,225)
Other	23	-	-	-	(53)	(53)	99	46
Net loss recognised directly in equity		-	(136)	-	(15,102)	(15,238)	99	(15,139)
Net profit for year		-	-	701,837	-	701,837	-	701,837
Total recognised income and expense for year		-	(136)	701,837	(15,102)	686,599	99	686,698
Transactions with equity holders in their capacity as equity holders:								
Return of capital	22	(378,041)	11,545	-	-	(366,496)	-	(366,496)
Employee share plan issue	22	64,433	(64,433)	-	-	-	-	-
Proceeds from exercise of in-substance options	22	-	98,040	-	-	98,040	-	98,040
Equity dividends	7	-	18,411	(546,609)	-	(528,198)	-	(528,198)
Other	22	-	2,647	-	-	2,647	-	2,647
		(313,608)	66,210	(546,609)	-	(794,007)	-	(794,007)
Balance at 30 June 2005		1,901,164	(215,354)	915,573	140,766	2,742,149	52	2,742,201

Statement of changes in equity

for the year ended 30 June 2006 - Wesfarmers Limited and its controlled entities

CONSOLIDATED (Continued)	Note	ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT					MINORITY INTEREST \$000	TOTAL EQUITY \$000
		ISSUED CAPITAL \$000	EMPLOYEE RESERVED SHARES \$000	RETAINED EARNINGS \$000	RESERVES (NOTE 23) \$000	TOTAL \$000		
Balance at 30 June 2005		1,901,164	(215,354)	915,573	140,766	2,742,149	52	2,742,201
Adoption of new accounting standards relating to financial instruments and insurance contracts	37	-	-	(3,975)	88,175	84,200	-	84,200
Restated balance at 1 July 2005		1,901,164	(215,354)	911,598	228,941	2,826,349	52	2,826,401
Foreign currency translation differences		-	1,193	-	(8,171)	(6,978)	-	(6,978)
Tax losses reversed in relation to the 2001 simplification plan	23	-	-	-	(481)	(481)	-	(481)
Changes in the fair value of available-for-sale assets net of tax	23	-	-	-	(1,791)	(1,791)	-	(1,791)
Changes in the fair value of cash flow hedges net of tax	23	-	-	-	(28,479)	(28,479)	-	(28,479)
Other	22	358	-	-	-	358	-	358
Net profit/(loss) recognised directly in equity		358	1,193	-	(38,922)	(37,371)	-	(37,371)
Net profit for year		-	-	1,048,142	-	1,048,142	-	1,048,142
Total recognised income and expense for year		358	1,193	1,048,142	(38,922)	1,010,771	-	1,010,771
Transactions with equity holders in their capacity as equity holders:								
Proceeds from exercise of in-substance options	22	-	36,496	-	-	36,496	-	36,496
Equity dividends	7	-	18,173	(725,842)	-	(707,669)	-	(707,669)
		-	54,669	(725,842)	-	(671,173)	-	(671,173)
Balance at 30 June 2006		1,901,522	(159,492)	1,233,898	190,019	3,165,947	52	3,165,999

Statement of changes in equity

for the year ended 30 June 2006 - Wesfarmers Limited and its controlled entities

PARENT	Note	ISSUED CAPITAL \$000	EMPLOYEES RESERVED SHARES \$000	RETAINED EARNINGS \$000	RESERVES (NOTE 23) \$000	TOTAL \$000
Balance at 1 July 2004		2,208,869	(273,661)	517,834	128,168	2,581,210
Tax losses reversed in relation to the 2001 simplification plan	23	-	-	-	(17,225)	(17,225)
Net loss recognised directly in equity		-	-	-	(17,225)	(17,225)
Net profit for year		-	-	586,605	-	586,605
Total recognised income and expense for year		-	-	586,605	(17,225)	569,380
Transactions with equity holders in their capacity as equity holders:						
Return of capital	22	(378,041)	11,150	-	-	(366,891)
Employee share plan issue	22	64,433	(58,083)	-	-	6,350
Proceeds from exercise of in-substance options	22	-	95,791	-	-	95,791
Equity dividends	7	-	17,947	(546,609)	-	(528,662)
Other	22	-	2,344	-	-	2,344
		(313,608)	69,149	(546,609)	-	(791,068)
Balance at 30 June 2005		1,895,261	(204,512)	557,830	110,943	2,359,522
Adoption of new accounting standards relating to financial instruments	37	-	-	-	(2,032)	(2,032)
Restated balance at 1 July 2005		1,895,261	(204,512)	557,830	108,911	2,357,490
Tax losses reversed in relation to the 2001 simplification plan	23	-	-	-	(481)	(481)
Changes in the fair value of cash flow hedges net of tax	23	-	-	-	2,777	2,777
Net profit/(loss) recognised directly in equity		-	-	-	2,296	2,296
Net profit for year		-	-	968,860	-	968,860
Total recognised income and expense for year		-	-	968,860	2,296	971,156
Transactions with equity holders in their capacity as equity holders:						
Proceeds from exercise of in-substance options	22	-	35,022	-	-	35,022
Equity dividends	7	-	17,488	(725,842)	-	(708,354)
		-	52,510	(725,842)	-	(673,332)
Balance at 30 June 2006		1,895,261	(152,002)	800,848	111,207	2,655,314

Notes to the financial statements

for the year ended 30 June 2006 - Wesfarmers Limited and its controlled entities

1 CORPORATE INFORMATION

The financial report of Wesfarmers Limited ("the Company") for the year ended 30 June 2006 was authorised for issue in accordance with a resolution of the directors on 12 September 2006. Wesfarmers 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 note 3.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

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 also been prepared on a historical cost basis, except for investment properties in associates, derivative financial instruments and available-for-sale investments, which have been measured at fair value. The carrying values of recognised assets and liabilities that are hedged items in fair value hedges, and are otherwise carried at cost, are adjusted to record changes in the fair values attributable to the risks that are being hedged.

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.

(b) 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 June 2005 have been restated accordingly except for the adoption of revised AASB 1023 *General Insurance Contracts*, AASB 132 *Financial Instruments: Disclosure and Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement*. The Company has adopted the exemption under AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* from having to apply revised AASB 1023, AASB 132 and AASB 139 to the comparative period.

The main adjustments necessary that would make the comparative financial statements comply with revised AASB 1023, AASB 132 and AASB 139 are listed below. Similar adjustments were made at 1 July 2005 to restate the opening financial position of the Company and consolidated entity to a position consistent with the accounting policies specified in note 2:

- (i) the measurement of financial assets designated as held-to-maturity and loans and receivables at amortised cost, rather than at cost in accordance with the superseded policy;
- (ii) the measurement of financial assets designated as fair value through profit or loss or available-for-sale at fair value, with changes in fair value recognised in profit or loss or equity as appropriate, rather than at cost in accordance with the superseded policy;
- (iii) the measurement of financial liabilities at amortised cost, rather than at cost in accordance with the superseded policy;
- (iv) the recognition and measurement of all derivatives (including any embedded derivatives) at fair value;
- (v) the recognition in profit or loss of the immaterial movement in the fair value of minor derivatives which did not qualify for hedge accounting or were not designated as hedging instruments;
- (vi) the transfer of deferred hedging gains and losses recognised as assets and liabilities arising from a cash flow hedge of a forecast transaction to the hedging reserve;
- (vii) the deferral in equity of the effective portion of the movement in fair value of derivatives accounted for as a cash flow hedge;
- (viii) the recognition in profit or loss of the ineffective portion of the movement in fair value of hedging instruments accounted for as a cash flow hedge;
- (ix) the recognition in profit or loss of the movement in fair value of derivatives accounted for as a fair value hedge and the fair valuing of hedged items;
- (x) the adjustment to the carrying amount of items that would qualify as a fair value hedge under AIFRS and were designated as a hedge under previous GAAP for the lower of the cumulative change in fair value of the hedged item for the designated hedge risk and the cumulative change in fair value of the hedging instrument;
- (xi) the recognition of any current or deferred taxes in relation to the adjustments described above; and
- (xii) the application of the liability adequacy test to each portfolio of insurance contracts with broadly similar risks that are managed together, rather than the total portfolio in accordance with the superseded policy.

Notes to the financial statements

for the year ended 30 June 2006 - Wesfarmers Limited and its controlled entities

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Statement of compliance (continued)

It is not practicable for the Company and the consolidated entity to detail the amounts of the adjustments to profit or loss and to opening retained earnings for the comparative period had the new accounting policies relating to financial instruments and general insurance contracts been applied from the beginning of the comparative period. In addition, it is not practicable for the Company and the consolidated entity to detail for the current period, the amounts of the adjustments resulting to each financial statement line item as a consequence of applying the accounting policies specified elsewhere in note 2.

Reconciliations of AIFRS equity and profit for 30 June 2005 to the balances reported in the 30 June 2005 financial report and at transition to AIFRS are detailed in note 37.

Australian Accounting Standards and Urgent Issues Group Interpretations that have recently been issued or amended but are not yet effective have not been adopted for the annual reporting period ended 30 June 2006 because they will not result in a change to accounting policy and therefore have no impact:

AASB	Application date for the Group
2004-3	1 July 2006
2005-1	1 July 2006
2005-4	1 July 2006
2005-5	1 July 2006
2005-6	1 July 2006
2005-9	1 July 2006
2005-10	1 July 2007
2006-1	1 July 2006
119	1 July 2006
7	1 July 2007
UIG	Application date for the Group
4	1 July 2006
5	1 July 2006
7	1 July 2006
8	1 July 2006
9	1 July 2006

(c) Basis of consolidation

The consolidated financial statements comprise the financial statements of Wesfarmers Limited and its subsidiaries ("the Group").

The financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

In preparing the consolidated financial statements, all intercompany balances and transactions, income and expenses and profit and losses resulting from intra-group transactions have been eliminated in full.

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. Investments in subsidiaries are accounted for by the parent at cost less any allowance for impairment.

Acquisitions are 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.

Minority interests represent the portion of profit or loss (where attributable) and net assets in Koukia Pty Limited, Australian Gold Reagents Pty Ltd and Wesfarmers Kleenheat Elpiji Limited not held by the Group and are presented separately in the income statement and within equity in the consolidated balance sheet.

Notes to the financial statements

for the year ended 30 June 2006 - Wesfarmers Limited and its controlled entities

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Significant accounting judgements, estimates and assumptions

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 had a significant effect on the amounts recognised in the financial statements:

Income tax

The Group has unrecognised benefits relating to carried forward capital losses, which can only be offset against eligible capital gains. These benefits are detailed in note 5. The Group has exercised its judgement that at this stage it has not identified probable future eligible capital gains that will be available to utilise the tax assets.

Further, the Group is undergoing a review by the Australian Taxation Office of the implementation of the taxation consolidation rules in relation to the generation of capital losses, and has exercised its judgement in affirming that the Group's treatment is correct and will prevail. Should this not be the case, an indeterminable amount of the capital losses previously recognised would be reversed resulting in the payment of income tax and a decrease in the restructure tax reserve. Such an amount could only be determined once the matter is resolved. The only impact on profit and loss of such an outcome would be the expensing of any penalties which may arise.

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 at least 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 are discussed in note 16.

Rights to mine and coal rebates payable

The Group determines the carrying values to be recognised for the right to mine the Curragh North deposit and the corresponding rebates payable to Stanwell Corporation upon signing contracts for the supply of export coal, as this crystallises a present obligation for the payment of the rebates. This calculation involves the estimation of tonnages to be supplied, USD-AUD exchange rates, coal prices and discount rates.

Insurance liabilities - outstanding insurance claims

The estimation of outstanding claim liabilities is based largely on the assumption that past developments are an appropriate predictor of the future and involves a variety of actuarial techniques that analyse experience, trends and other relevant factors. The process commences with the actuarial projection of the future claim payments and claim handling costs incurred to the reporting date. Each class of business is usually examined separately and some or all of the following will be considered for each class in projecting future claim payments:

- historical trends in the development and incidence of the number of claims reported, number of claims finalised, claim payments and reported incurred costs;
- exposure details, including policy counts, sums insured, earned premiums and policy limits;
- claim frequencies and average claim sizes;
- the legislative framework, legal and court environments and social and economic factors that may impact upon each class of business;
- historical and likely future trends in standard inflationary pressures relating to commodity prices and wages;
- historical and likely future trends of inflationary pressures in addition to price or wage inflation, termed superimposed inflation;
- historical and likely future trends of expenses associated with managing claims to finalisation;
- reinsurance recoveries available under contracts entered into by the insurer;
- historical and likely future trends of recoveries from sources such as subrogation and third party actions; and
- insurer specific, relevant industry data and more general economic data is utilised in the estimation process.

Projected future claim payments and associated claim handling costs are discounted to a present value as required using appropriate risk free discount rates. A projection of future claims payments, both gross and net of reinsurance and other recoveries is undertaken.

This projection is typically made without bias toward over or under estimation. As such, the resulting estimate is considered to be a net central estimate of outstanding claims liabilities that has an approximately equal chance of proving adequate as not. Where possible and appropriate, multiple actuarial methods will be applied to project future claim payments. This assists in providing a greater understanding of the trends inherent in the past data. The projections obtained from various methods also assist in setting the range of possible outcomes. The most appropriate method, or even a blend of methods, is selected taking into account the characteristics of the class of business and the extent of the development of each past accident period.

Notes to the financial statements

for the year ended 30 June 2006 - Wesfarmers Limited and its controlled entities

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Significant accounting judgements, estimates and assumptions (continued)

As an estimate of future outcomes, the net central estimate of outstanding claims liability is subject to uncertainty. Uncertainty is examined for each class of business and expressed as a volatility of the net central estimate. The volatility for each class is derived after consideration of stochastic modelling and benchmarking to industry analysis.

The long tail classes of Workers Compensation and Liability have the highest volatilities of the insurance classes as the longer average time to settle provides a greater opportunity for sources of uncertainty to emerge. Short tail classes such as Motor, Home and Contents and Property have lower levels of volatility.

As the volatility for each class of business is only partially correlated with other classes, when combined across the entire Group, the overall volatility will be less than the sum of the individual classes.

With regard to an estimate of the overall volatility for general insurance business, a range of risk margins associated with a probability of the total net provision for outstanding claims liabilities proving adequate may be produced.

Assets arising from reinsurance contracts

Assets arising from reinsurance contracts are also computed using the above methods. In addition, the recoverability of these assets is assessed on a periodic basis to ensure that the balance is reflective of the amounts that will ultimately be received, taking into consideration factors such as counterparty and credit risk. Impairment is recognised where there is objective evidence that the consolidated entity may not receive amounts due to it and these amounts can be reliably measured.

(e) Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The 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 - services have been rendered to a buyer by reference to stage of completion;
- interest - revenue is recognised as the interest accrues (using the effective interest method, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument) to the net carrying amount of the financial asset; and
- dividends - revenue is recognised when the shareholders' right to receive the payment is established.

(f) Borrowing costs

Borrowing costs are recognised as an expense when incurred, with the exception of interest charges on funds invested in major projects with substantial development and construction phases which are capitalised to the project until such time as the project is substantially complete, which is ordinarily when the project becomes operational.

The capitalisation rate used to determine the amount of borrowing costs to be capitalised is the weighted average interest rate applicable to the entity's outstanding borrowings during the period, in this case 5.9% (2005: 5.9%).

(g) Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Group as a lessee

Leases in which the lessor retains substantially all the risks and benefits of ownership 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. Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

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

(h) Cash and cash equivalents

Cash and short-term deposits in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less, excluding deposits held as investments by the insurance business.

For the purposes of the cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

(i) Trade and other receivables

Trade receivables, which are non-interest bearing and generally have 2 to 30 day terms, are recognised and carried at original invoice amount less an allowance for any uncollectible amounts.

An allowance for doubtful debts is made when there is objective evidence that the Group will not be able to collect the debts. Bad debts are written off when identified.

Notes to the financial statements

for the year ended 30 June 2006 - Wesfarmers Limited and its controlled entities

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Inventories

Inventories are valued at the lower of cost and net realisable value.

Costs incurred in bringing each product to its present location and condition are accounted for as follows:

- raw materials - purchase cost on a weighted average basis;
- manufactured finished goods and work-in-progress - cost of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity but excluding borrowing costs; and
- retail and wholesale merchandise finished goods - purchase cost on a weighted average basis or on a retail inventory method basis.

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.

From 1 July 2005 the Group changed its policy in relation to accounting for uncovered coal reserves at the coal mining operations in terms of the point at which inventory is recognised. Refer note 2(f) for details.

(k) Derivative financial instruments and hedging

The Group has elected to apply the option available under AASB 1 of adopting AASB 132 and AASB 139 from 1 July 2005. Outlined below are the relevant accounting policies for derivative financial instruments and hedging applicable for the years ended 30 June 2006 and 30 June 2005.

Accounting policies applicable for the year ended 30 June 2006

The Group uses derivative financial instruments such as forward currency contracts and interest rate swaps to hedge its risks associated with foreign currency and interest rate fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured to fair value. Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

Any gains or losses arising from changes in the fair value of derivatives, except for those that qualify as cash flow hedges, are taken directly to net profit or loss for the year.

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of interest rate swap contracts is determined by reference to market values for similar instruments.

For the purposes of hedge accounting, hedges are classified as:

- fair value hedges when they hedge the exposure to changes in the fair value of a recognised asset or liability;
- cash flow hedges when they hedge exposure to variability in cash flows that is attributable either to a particular risk associated with a recognised asset or liability or to a highly probable forecast transaction; or
- hedges of a net investment in a foreign operation.

A hedge of the foreign currency risk of a firm commitment is accounted for as a cash flow hedge.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Hedges that meet the strict criteria for hedge accounting are accounted for as follows:

Fair value hedges

Fair value hedges are hedges of the Group's exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect profit or loss. For fair value hedges, the carrying amount of the hedged item is adjusted for gains and losses attributable to the risk being hedged, the derivative is remeasured to fair value and gains and losses from both are taken to profit or loss.

When an unrecognised firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognised as an asset or liability with a corresponding gain or loss recognised in profit or loss. The changes in the fair value of the hedging instrument are also recognised in profit or loss.

The Group discontinues fair value hedge accounting if the hedging instrument expires or is sold, terminated or exercised, the hedge no longer meets the criteria for hedge accounting or the Group revokes the designation. Any adjustment to the carrying amount of a hedged financial instrument for which the effective interest method is used is amortised to profit or loss. Amortisation may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

Notes to the financial statements

for the year ended 30 June 2006 - Wesfarmers Limited and its controlled entities

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Derivative financial instruments and hedging (continued)

Cash flow hedges

Cash flow hedges are hedges of the Group's exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction and that could affect profit or loss. The effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while the ineffective portion is recognised in profit or loss.

Amounts taken to equity are transferred to the income statement when the hedged transaction affects profit or loss, such as when hedged income or expenses are recognised or when a forecast sale occurs or the asset is consumed. When the hedged item is the cost of a non-financial asset or liability, the amounts taken to equity are transferred to the initial carrying amount of the non-financial asset or liability.

If the forecast transaction is no longer expected to occur, amounts previously recognised in equity are transferred to the income statement. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognised in equity remain in equity until the forecast transaction occurs. If the related transaction is not expected to occur, the amount is taken to the income statement.

Accounting policies applicable for the year ended 30 June 2005

Forward exchange contracts

The Group entered into forward exchange contracts whereby it agreed to buy or sell specified amounts of foreign currencies in the future at a predetermined exchange rate. The objective was to match the contract with anticipated future cash flows from sales and purchases in foreign currencies to protect the Group against the possibility of loss from future exchange rate fluctuations. The forward exchange contracts were usually for no longer than 5 years.

Forward exchange contracts were recognised at the date the contract was entered into. Exchange gains or losses on forward exchange contracts were recognised in net profit except those relating to hedges of specific commitments, which were deferred and included in the measurement of the sale or purchase.

Interest rate swaps

The Group entered into interest rate swap agreements that were used to convert the variable interest rate of its short-term borrowings to medium-term fixed interest rates. The swaps were entered into with the objective of reducing the risk of rising interest rates.

It was the company's policy not to recognise interest rate swaps in the financial statements. Net receipts and payments were recognised as an adjustment to interest expense.

Specific hedges

When a purchase or sale was specifically hedged, exchange gains or losses on the hedging transaction arising up to the date of purchase or sale and costs, premiums and discounts relative to the hedging transaction were deferred and included in the measurement of the purchase or sale. Exchange gains and losses arising on the hedge transaction after that date were taken to net profit.

(l) Derecognition of financial assets and financial liabilities

The derecognition of a financial asset takes place when the Group no longer controls the contractual rights that comprise the financial instrument, which is normally the case when the instrument is sold, or all the cash flows attributable to the instrument are passed through to an independent third party.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

(m) Impairment of financial assets

The Group has elected to apply the option available under AASB 1 of adopting AASB 132 and AASB 139 from 1 July 2005. Outlined below are the relevant accounting policies applicable for the years ended 30 June 2006 and 30 June 2005.

Accounting policies applicable for the year ended 30 June 2006

The Group assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

Financial assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (ie the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through use of an allowance account. The amount of the loss is recognised in profit or loss.

Notes to the financial statements

for the year ended 30 June 2006 - Wesfarmers Limited and its controlled entities

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Impairment of financial assets (continued)

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in profit or loss, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

Financial assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value (because its fair value cannot be reliably measured), or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the current market rate of return for a similar financial asset. Impairment losses are not reversed.

Available-for-sale investments

If there is objective evidence that an available-for-sale investment is impaired, an amount comprising the difference between its cost (net of any principal repayment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is transferred from equity to the income statement. Reversals of impairment losses for equity instruments classified as available-for-sale are not recognised in profit. Reversals of impairment losses for debt instruments are reversed through profit or loss if the increase in an instrument's fair value can be objectively related to an event occurring after the impairment loss was recognised in profit or loss.

Accounting policies applicable for the year ended 30 June 2005

For current financial assets, refer to note 2(i) and note 2(v) for the impairment accounting policy.

For non-current financial assets, refer to note 2(v) for the impairment accounting policy.

(n) Foreign currency translation

Both the functional and presentation currency of Wesfarmers Limited and its Australian subsidiaries is Australian dollars.

Transactions in foreign currencies are initially recorded in the functional currency at the exchange rates 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 the income statement with the exception of differences on foreign currency borrowings that provide a hedge against a net investment in a foreign entity. These are taken directly to equity until the disposal of the net investment, at which time they are recognised in the income statement.

Tax charges and credits attributable to exchange differences on those borrowings are also recognised in equity.

The functional currency of overseas subsidiaries is listed in note 30.

As at the reporting date the assets and liabilities of these overseas subsidiaries are translated into the presentation currency of Wesfarmers Limited at the rate of exchange ruling at the balance sheet date and the income statements are translated at the average exchange rates for the period.

The exchange differences arising on the retranslation are taken directly to a separate component of equity.

(o) Investment in associates

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

Under the equity method, the investment in associates is carried in the consolidated balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the associates. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised. After application of the equity method, the Group determines whether it is necessary to recognise any additional impairment loss with respect to the Group's net investment in the associates. 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 in the consolidated statement of recognised income and expense.

The reporting dates of the associates and the Group may vary, whereupon management accounts of the associate for the period to the Group's balance date are used for equity accounting. The associates' accounting policies are conformed to those used by the Group for like transactions and events in similar circumstances.

Notes to the financial statements

for the year ended 30 June 2006 - Wesfarmers Limited and its controlled entities

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Investment in associates (continued)

An associate owns investment properties which are initially measured at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the balance sheet date. Gains or losses arising from changes in the fair values of investment properties are recognised in profit or loss in the year in which they arise.

(p) Interest in jointly controlled assets

The Group has interests in joint ventures that are jointly controlled assets. A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control. A jointly controlled asset involves use of assets and other resources of the venturers rather than establishment of a separate entity. The Group

incurs. The Group also recognises the expenses that it incurs and the income that it earns from the sale of the output produced by the jointly controlled assets.

(q) Income tax

Current tax assets and liabilities for the current and prior reporting periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively 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 goodwill or 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 profit 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 of 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 profit 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.

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

(r) Other taxes

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

- where 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 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 are classified as operating cash flows.

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

Notes to the financial statements

for the year ended 30 June 2006 - Wesfarmers Limited and its controlled entities

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and any accumulated impairment losses. Such costs include the cost of replacing parts that are eligible for capitalisation when the cost of replacing the parts is incurred. Similarly, when each major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement only if it is eligible for capitalisation.

Land and buildings are measured at cost less accumulated depreciation on buildings.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

- buildings 20 - 40 years
- plant and equipment 3 - 15 years

The assets' residual values, useful lives and amortisation methods are reviewed, and adjusted if appropriate, at each financial year end.

Expenditure carried forward in respect of mining areas of interest in which production has commenced is amortised over the life of the mine based on the rate of depletion of the economically recoverable reserves. Amortisation is not charged on expenditure carried forward in respect of areas of interest in the development phase in which production has not yet commenced.

Leasehold improvements are amortised over the period of the lease or the anticipated useful life of the improvements, whichever is shorter.

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

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

Impairment

The carrying values of plant and equipment are reviewed for impairment at each reporting date, with recoverable amount being estimated when events or changes in circumstances indicate that the carrying value may be impaired.

The recoverable amount of plant and equipment is the higher 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.

For an asset that does not generate largely independent cash inflows, recoverable amount is determined for the cash-generating unit to which the asset belongs, unless the asset's value in use can be estimated to be close to its fair value.

An impairment exists when the carrying value of an asset or cash-generating units exceeds its estimated recoverable amount. The asset or cash-generating unit is then written down to its recoverable amount. For plant and equipment, impairment losses are generally recognised in the income statement in the cost of sales line item.

(t) Investments and other financial assets

The Group has elected to apply the option available under AASB 1 of adopting AASB 132 and AASB 139 from 1 July 2005. Outlined below are the relevant accounting policies for investments and other financial assets applicable for the years ended 30 June 2006 and 30 June 2005.

Accounting policies applicable for the year ended 30 June 2006

Financial assets in the scope of AASB 139 Financial Instruments: Recognition and Measurement are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale investments, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transactions costs. The Group determines the classification of its financial assets after initial recognition and, when allowed and appropriate, re-evaluates this designation at each financial year-end.

All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets under contracts that require delivery of the assets within the period established generally by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category 'financial assets at fair value through profit or loss'. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on investments held for trading are recognised in profit or loss.

Notes to the financial statements

for the year ended 30 June 2006 - Wesfarmers Limited and its controlled entities

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(t) Investments and other financial assets (continued)

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. Investments that are intended to be held-to-maturity, such as bonds, are subsequently measured at amortised cost. This cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. For investments carried at amortised cost, gains and losses are recognised in profit or loss when the investments are derecognised or impaired, as well as through the amortisation process.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale investments

Available-for-sale investments are those non-derivative financial assets that are designated as available-for-sale or are not classified as any of the three preceding categories. After initial recognition available-for-sale investments are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is recognised in profit or loss.

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments with no active market, 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.

Accounting policies applicable for the year ended 30 June 2005

Listed shares held for trading were carried at net market value. Changes in net market value were recognised as a revenue or expense in determining the net profit for the period.

All other non-current investments were carried at the lower of cost and recoverable amount.

Recoverable amount

Non-current financial assets measured using the cost basis were not carried at an amount above their recoverable amount, and when a carrying value exceeded this recoverable amount, the financial asset was written down to its recoverable amount. In determining recoverable amount, the expected net cash flows were not discounted to their present value.

(u) 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 identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is reviewed for impairment annually, or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with AASB 114 Segment Reporting.

Impairment is determined by assessing the recoverable amount of the cash-generating unit or group of cash-generating units, to which the goodwill relates. When the recoverable amount of the cash-generating unit or group of cash-generating units is less than the carrying amount, an impairment loss is recognised. When goodwill forms part of a cash-generating unit or group of cash-generating units and an operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this manner is measured based on the relative values of the operation disposed of and the portion of the cash generating unit retained.

Impairment losses recognised for goodwill are not subsequently reversed.

Notes to the financial statements

for the year ended 30 June 2006 - Wesfarmers Limited and its controlled entities

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(v) Impairment of assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of its fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets and the asset's value in use cannot be estimated to be close to its fair value. In such cases the asset is tested for impairment as part of the cash generating unit to which it belongs. When the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset or cash-generating unit is considered impaired and is written down to its recoverable amount.

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 relating to continuing operations are recognised in those expense categories consistent with the function of the impaired asset.

An assessment is also made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

(w) Trade and other payables

The Group has elected to apply the option available under AASB 1 of adopting AASB 132 and AASB 139 from 1 July 2005. Outlined below are the relevant accounting policies for trade and other payables applicable for the years ended 30 June 2006 and 30 June 2005.

Accounting policies applicable for the year ended 30 June 2006

Trade payables and other payables are carried at amortised cost 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. Trade payables are non-interest bearing and are normally settled on 7 to 60 day terms.

Coal rebates payable are recognised where a present obligation exists, which currently extend for up to a five year period. The amounts payable are discounted to present value. The liability is payable on a monthly basis based on export coal sales on standard commercial terms.

Accounting policies applicable for the year ended 30 June 2005

Trade payables and other payables are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the consolidated entity.

Coal rebates payable are recognised where a present obligation exists, which currently extend for up to a five year period. The amounts payable are discounted to present value. The liability crystallises on a monthly basis based on export coal sales and is payable on standard commercial terms.

(x) Interest-bearing loans and borrowings

The Group has elected to apply the option available under AASB 1 of adopting AASB 132 and AASB 139 from 1 July 2005. Outlined below are the relevant accounting policies for interest bearing loans and borrowings applicable for the years ended 30 June 2006 and 30 June 2005.

Accounting policies applicable for the year ended 30 June 2006

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

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 derecognised.

Accounting policies applicable for the year ended 30 June 2005

All loans were measured at the principal amount. Interest was recognised as an expense as it accrued.

The bank overdraft is carried at its principal amount subject to set-off arrangements. Interest is charged on a monthly basis as an expense at the bank's benchmark rate as it accrues.

Bank loans, promissory notes, corporate bonds, commercial paper and other loans are carried at their principal amount less any unexpired discount for bank bills and medium term notes. These loans are generally borrowed for short terms under long term facilities. The loans are allocated between current and non-current based on the repayment period for the facilities. Interest is charged as an expense at short term commercial rates as it accrues.

Notes to the financial statements

for the year ended 30 June 2006 - Wesfarmers Limited and its controlled entities

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(y) 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 determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, 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.

Mine and plant rehabilitation

Provision is made for the consolidated entity's estimated liability under specific legislative requirements and the conditions of its licences and leases for future costs (at discounted amounts) expected to be incurred rehabilitating areas of operation. The liability includes the cost of reclamation of the site using existing technology, including plant removal and landfill costs. This provision is recognised immediately when development of the asset occurs.

Restructure

A provision for restructuring is recognised for the expected costs associated with restructuring once a present obligation exists.

Profit-sharing and bonus plans

The Group recognises a liability and an expense for bonuses and profit-sharing based on a formula that takes into consideration the profit attributable to the company's shareholders after certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

(z) Employee leave benefits

Wages, salaries and annual leave

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

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 balance date. 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 balance date on national government bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

Expenses which are consequential to the employment of the employees (for example payroll tax associated with employee entitlements) are also recognised as a liability and included in the amount for employee entitlements.

(aa) Pensions benefits

Defined contribution plan

Contributions to superannuation funds are charged to the income statement when due.

Defined benefit plan

The Group contributes to a defined benefit pension scheme. The cost of providing benefits under the plan is determined using the projected unit credit actuarial valuation method. Actuarial gains and losses are recognised immediately as income or expense in the income statement.

Notes to the financial statements

for the year ended 30 June 2006 - Wesfarmers Limited and its controlled entities

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(ab) 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").

There are currently three plans in place to provide these benefits:

- the Wesfarmers Employee Share Ownership Plan (WESOP), which provides benefits to all qualifying employees, excluding those that participate in the Wesfarmers Long Term Incentive Plan (WLTIP) below. The first issue under this plan was in October 2005;
- the WLTIP, which provides benefits to more senior qualifying employees. The first issue under this plan was in October 2005; and
- the Wesfarmers Employee Share Plan (WESP), which provides benefits to all employees. The last issue under this plan was in December 2004.

The cost of these equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted.

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

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity where applicable, 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 the extent to which the vesting period has expired and the number of awards that are expected to 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 only 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 WESP is accounted for as an "in-substance" option plan due to the limited recourse nature of the loan. The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Shares in the Group held under the WESP are classified and disclosed as employee reserved shares and deducted from equity.

(ac) Contributed equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares for the acquisition of a business are included in the cost of the acquisition as part of the purchase consideration.

Ordinary share capital bears no special terms or conditions affecting income or capital entitlements of the shareholders.

(ad) Insurance activities

Insurance premium revenue

Premium revenue comprises amounts charged to policyholders, excluding taxes collected on behalf of third parties. The earned portion of premium received and receivable, including unclosed business, is recognised as revenue. Premiums on unclosed business are brought to account using estimates based on the previous year's actual unclosed business with due allowance made for any changes in the pattern of new business and renewals.

Interest revenue from premium funding activities is recognised as interest accrues using the effective interest rate method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Notes to the financial statements

for the year ended 30 June 2006 - Wesfarmers Limited and its controlled entities

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(ad) Insurance activities (continued)

Unearned premium

Unearned premium is calculated based on the term of the risk which closely approximates the pattern of risks underwritten.

At each balance date, the adequacy of the unearned premium liability is assessed on a net of reinsurance basis against the present value of the expected future cash flows relating to potential future claims in respect of the relevant insurance contracts, plus an additional risk margin to reflect the inherent uncertainty of the central estimate. For the year ended 30 June 2006, the assessment is carried out on each portfolio of contracts that are broadly similar and managed together as a single portfolio; whereas for the year ended 30 June 2005 the assessment was carried out on a total portfolio basis. If the unearned premium liability, less related intangible assets and deferred acquisition costs, is deficient, then the resulting deficiency is recognised in the income statement of the Group.

Outwards reinsurance

Premium ceded to reinsurers is recognised as an expense in accordance with the pattern of reinsurance service received. Accordingly, a portion of outwards reinsurance premium is treated as a receivable at balance date.

Outstanding claims liability

The liability for outstanding claims is measured as the central estimate of the present value of expected future claims payments plus a risk margin. The expected future payments include those in relation to claims reported but not yet paid; claims incurred but not reported ("IBNR"), claims incurred but not enough reported ("IBNER"); and estimated claims handling costs.

The expected future payments are discounted to present value using a risk free rate.

A risk margin is applied to the central estimate, net of reinsurance and other recoveries, to reflect the inherent uncertainty in the central estimate. This risk margin increases the probability that the net liability is adequate to a minimum of 85 per cent.

Reinsurance and other recoveries receivable

Reinsurance and other recoveries on paid claims, reported claims not yet paid, IBNR and IBNER are recognised as revenue.

Amounts recoverable are assessed in a manner similar to the assessment of outstanding claims. Recoveries are measured as the present value of the expected future receipts, calculated on the same basis as the provision for outstanding claims.

Deferred acquisition costs

A portion of acquisition costs relating to unearned premium is deferred in recognition that it represents a future benefit. Deferred acquisition costs are measured at the lower of cost and recoverable amount. Deferred acquisition costs are amortised systematically in accordance with the expected pattern of the incidence of risk under the general insurance contracts to which they relate.

Insurance investments

As part of its investment strategy the Group actively manages its investment portfolio to ensure that investments mature in accordance with the expected pattern of future cash flows arising from general insurance liabilities.

With the exception of plant and equipment, the Group has determined that all assets in the Insurance division are held to back general insurance liabilities. These assets have been valued at fair value through the income statement.

Initial recognition is at cost in the balance sheet and subsequent measurement is at fair value with any resultant fair value gains or losses recognised in the income statement.

Fire brigade and other charges

A liability for fire brigade and other charges is recognised on business written to the balance date. Levies and charges payable are expensed on the same basis as the recognition of premium revenue, with the portion relating to unearned premium being recorded as a prepayment.

Commission expense

Commissions paid in respect of premium funding activities are amortised over the expected life of the loan using the effective interest rate method. Commissions paid in respect of general insurance activities is capitalised as a deferred acquisition cost and are amortised systematically in accordance with the expected pattern of the incidence of risk under the general insurance contracts to which they relate.

Notes to the financial statements

for the year ended 30 June 2006 - Wesfarmers Limited and its controlled entities

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(ae) Earnings per share

Basic 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) and preference share dividends, divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted earnings per share

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

- costs of servicing equity (other than dividends) and preference share 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.

(af) Voluntary change in accounting policy - uncovered reserve inventory

From 1 July 2005 the Group changed its policy in relation to accounting for uncovered coal reserves at the coal mining operations. The Group now absorbs the production cost of drilling, blasting and overburden removal into the value of run-of-mine coal stock, rather than recognising uncovered coal reserves as a separate component of work-in-progress inventory. Accounting for these production costs in this way is common in the coal industry, and the directors believe this change will result in the report providing reliable and more relevant information about coal earnings and inventory valuation by better matching the costs of producing coal to the physical material flows of finished product.

The impact of the change in accounting policy has been retrospectively adjusted for previous reporting periods in accordance with AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors. The financial quantification of this impact is as follows:

	CONSOLIDATED		
	PREVIOUS POLICY \$000	IMPACT OF CHANGE \$000	NEW POLICY \$000
Balance sheet impact			
1 July 2004			
Inventories	1,243,504	(79,606)	1,163,898
Deferred income tax liabilities	157,048	(21,081)	135,967
Retained profits	818,870	(58,525)	760,345
30 June 2005			
Inventories	1,231,542	(81,895)	1,149,647
Deferred income tax liabilities	165,850	(22,443)	143,407
Retained profits	975,025	(59,452)	915,573
30 June 2006			
Inventories	1,243,052	(96,654)	1,146,398
Deferred income tax liabilities	169,600	(27,343)	142,257
Retained profits	1,303,209	(69,311)	1,233,898
Income statement impact			
Year ended 30 June 2005			
Profit before income tax	968,923	(2,289)	966,634
Income tax expense	(266,159)	1,362	(264,797)
Net profit for the year	702,764	(927)	701,837
Year ended 30 June 2006			
Profit before income tax	1,481,815	(14,760)	1,467,055
Income tax expense	(423,813)	4,900	(418,913)
Net profit for the year	1,058,002	(9,860)	1,048,142

The impact on basic and diluted earnings per share is not material.

Notes to the financial statements

for the year ended 30 June 2006 - Wesfarmers Limited and its controlled entities

3 SEGMENT INFORMATION

The Group's primary 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 operating businesses are organised and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. The majority of the Group operations are in one material geographical segment only, being Australia, and therefore a secondary reporting format is not provided.

Transfer prices between business segments are set at an arm's length basis in a manner similar to transactions with third parties. Segment revenue, segment expense and segment result include transfers between business segments. Those transfers are eliminated on consolidation where material.

The business segments are as follows:

Energy

Coal mining and development;
Coal marketing to both domestic and export markets;
National marketing and distribution of LPG;
LPG extraction for domestic and export markets;
Manufacture and marketing of industrial gases and equipment; and
Electricity supply to mining operations and regional centres.

Home improvement

Retail building material and home and garden improvement products;
Servicing project builders and the housing industry; and
Bargain hardware and variety.

Insurance

Supplier of specialist rural and small business regional insurance; and
Supplier of general insurance through broking intermediaries.

Industrial and safety distribution

Supplier and distributor of maintenance, repair and operating (MRO) products; and
Specialised supplier and distributor of industrial safety products and services.

Chemicals and fertilisers

Manufacture and marketing of chemicals for industry, mining and mineral processing; and
Manufacture and marketing of broadacre and horticultural fertilisers.

Other

Rail transport: non-controlling interest in Australian Railroad Group Pty Ltd, which provides rail services for bulk commodities and associated retail logistics operations, and owns track infrastructure. This interest was disposed of during the year;

Forest products: non-controlling interest in Wespine Pty Ltd, which manufactures products to service the wholesale timber market in Australia;

Property investment: non-controlling interest in Bunnings Warehouse Property Trust, which acquires properties suitable for retail property development and investment;

Investment banking: non-controlling interest in Gresham Partners Group Limited, which is an investment bank providing financial advisory and investment management services; and

Private equity investment: non-controlling interest in Gresham Private Equity Fund 1 and Gresham Private Equity Fund No. 2, which are closed-end private equity funds targeting larger size private equity transactions in the areas of management buy-outs, expansion capital and corporate restructuring.

Revenue and earnings of various divisions are affected by seasonality and cyclicity as follows:

- Home improvement - earnings are typically greater in the December half of the financial year due to the impact on the retail business of the Christmas holiday shopping period;
- Energy - the majority of the entity's coal contracts are renewed in April each calendar year, and depending upon the movement in prevailing coal prices this can result in significant changes in revenue and earnings in the last quarter of the financial year through to the third quarter of the following year; and
- Chemicals and fertilisers - earnings are typically much greater in the June half of the financial year due to the impact of the Western Australian winter season break on fertiliser sales.

Notes to the financial statements

for the year ended 30 June 2006 - Wesfarmers Limited and its controlled entities

3 SEGMENT INFORMATION (continued)

	HOME IMPROVEMENT		ENERGY		INDUSTRIAL AND SAFETY	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000	2006 \$000	2005 \$000
Operating revenue	4,275,487	4,065,349	1,676,059	1,161,460	1,177,669	1,174,694
Earnings						
Earnings before interest, tax, depreciation, amortisation (EBITDA) and corporate overheads	470,443	463,121	794,961	393,840	110,987	124,875
Depreciation and amortisation of property, plant and equipment	(49,990)	(47,388)	(167,796)	(76,738)	(14,158)	(16,046)
Earnings before interest paid, tax (EBIT) and corporate overheads	420,453	415,733	627,165	317,102	96,829	108,829
Consolidation adjustment						
Finance costs						
Corporate overheads						
Profit before income tax expense						
Income tax expense						
Profit attributable to minority interests						
Profit attributable to members of the parent						
Assets and liabilities						
Segment assets	2,340,461	2,241,681	1,595,969	1,300,414	900,895	946,195
Investments in associates	-	-	13,495	14,846	-	-
Tax assets						
Total assets						
Segment liabilities	326,302	324,041	593,105	529,711	146,920	143,896
Tax liabilities						
Interest bearing liabilities						
Total liabilities						
Other segment information						
Capital expenditure	222,284	183,902	286,002	219,984	16,344	16,598
Share of net profit or loss of associates included in EBIT	-	-	5,397	4,728	-	-
Non-cash expenses other than depreciation and amortisation	60,729	47,739	29,148	36,502	15,812	13,299

Notes to the financial statements

for the year ended 30 June 2006 - Wesfarmers Limited and its controlled entities

3 SEGMENT INFORMATION (continued)

INSURANCE		CHEMICALS AND FERTILISERS		OTHER		CONSOLIDATED	
2006 \$000	2005 \$000	2006 \$000	2005 \$000	2006 \$000	2005 \$000	2006 \$000	2005 \$000
1,117,249	1,125,640	595,204	586,874	17,133	44,614	8,858,801	8,158,631
132,846	142,560	123,068	128,042	308,903	59,476	1,941,208	1,311,914
(8,007)	(7,686)	(41,688)	(38,654)	(1,828)	(2,349)	(283,467)	(188,861)
124,839	134,874	81,380	89,388	307,075	57,127	1,657,741	1,123,053
						(6,480)	(4,524)
						(133,837)	(104,176)
						(50,369)	(47,719)
						1,467,055	966,634
						(418,913)	(264,797)
						-	-
						1,048,142	701,837
1,562,609	1,513,379	565,705	521,830	185,373	84,804	7,151,012	6,608,303
-	-	52,293	50,025	213,425	374,593	279,213	439,464
						84,922	105,002
						7,515,147	7,152,769
1,214,520	1,173,048	89,390	100,329	80,033	97,059	2,450,270	2,368,084
						355,965	242,474
						1,542,913	1,800,010
						4,349,148	4,410,568
20,848	14,125	72,528	31,437	3,258	34,188	621,264	500,234
-	-	3,088	3,862	48,413	44,938	56,898	53,528
2,168	4,383	(242)	5,480	6,384	18,002	113,999	125,405

Notes to the financial statements

for the year ended 30 June 2006 - Wesfarmers Limited and its controlled entities

4 REVENUE AND EXPENSES

	CONSOLIDATED		PARENT	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
Other income				
Net gains on disposal of available-for-sale investments	1,722	-	-	-
Net gains on disposal of property, plant and equipment	3,174	8,722	721	102
	4,896	8,722	721	102
Finance costs				
Interest and finance charges payable:				
Subsidiaries	-	-	2,905	3,613
Other parties	123,991	104,685	113,413	95,495
Total finance costs (on a historical cost basis)	123,991	104,685	116,318	99,108
Discount adjustment	14,334	1,074	-	-
Interest capitalised	(4,488)	(1,583)	-	-
Total finance costs	133,837	104,176	116,318	99,108
Depreciation and amortisation				
Depreciation	184,954	172,229	1,725	2,142
Amortisation of leasehold improvements	4,668	3,047	36	24
Amortisation of mineral exploration and development costs	93,845	13,585	-	-
Employee benefits expense				
Remuneration, bonuses and on-costs	1,025,133	994,512	27,057	32,880
Defined contributions expense	91,725	79,131	3,709	2,183
Share based payments expense (note 34)	27,079	2,362	1,792	1,861
	1,143,937	1,076,005	32,558	36,924
Other expenses				
Bad and doubtful debts				
Subsidiaries	-	-	-	10,541
Trade receivables	5,241	2,669	-	-
Finance advances and loans	961	(554)	-	-
Minimum lease payments - operating leases	186,948	174,389	1,838	1,776
Write down of inventory to net realisable value	28,707	17,156	-	-
Government mining royalties	72,971	37,450	-	-
Research and development costs	2,149	4,466	-	-
Insurance underwriting result				
Premium revenue	1,073,866	1,076,634		
Outwards reinsurance premium expense	(290,706)	(341,163)		
Net premium revenue	783,160	735,471		
Claims expense - undiscounted	(808,510)	(663,199)		
Discount effect	11,367	4,772		
Reinsurance and other recoveries revenue - undiscounted	352,248	245,951		
Discount effect	(4,007)	316		
Net claims incurred	(448,902)	(412,160)		
Acquisition costs	(129,550)	(117,467)		
Other underwriting expenses	(74,438)	(63,682)		
Net underwriting expenses	(203,988)	(181,149)		
Underwriting result	130,270	142,162		

Net claims incurred relating to risks borne in previous periods are not material

Notes to the financial statements

for the year ended 30 June 2006 - Wesfarmers Limited and its controlled entities

5 INCOME TAX

	CONSOLIDATED		PARENT	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
The major components of income tax expense are:				
Income statement				
Current income tax				
Current income tax charge/(refund)	401,592	289,538	(51,170)	(8,099)
Adjustments in respect of current income tax of previous years	(1,986)	(27,425)	(1,727)	(22,125)
Deferred income tax				
Relating to origination and reversal of temporary differences	19,307	2,684	6,931	(19,976)
Income tax expense/(credit) reported in the income statement	418,913	264,797	(45,966)	(50,200)
Statement of recognised income and expense				
Deferred income tax related to items charged or credited directly to equity				
Net gain on revaluation of cash flow hedges	5,314	-	1,131	-
Unrealised loss on available-for-sale investments	(1,478)	-	-	-
Tax losses reversed in relation to 2001 simplification plan	481	17,225	481	17,225
Income tax expense reported in equity	4,317	17,225	1,612	17,225
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	1,467,055	966,634	922,894	536,405
At the Group's statutory income tax rate of 30% (2005: 30%)	440,117	289,990	276,868	160,921
Adjustments in respect of current income tax of previous years	(1,986)	(27,425)	(1,727)	(22,125)
Non-assessable dividends	-	-	(302,325)	(189,268)
Carried forward tax losses now recognised	(18,800)	-	(18,800)	-
Share of associated companies net profit after tax	(3,751)	(10,966)	-	-
Tax on undistributed associates profit	(20,654)	8,929	-	-
Non deductible accounting cost base	18,600	-	-	-
Other	5,387	4,269	18	272
Income tax expense/(credit) reported in the consolidated income statement	418,913	264,797	(45,966)	(50,200)

Notes to the financial statements

for the year ended 30 June 2006 - Wesfarmers Limited and its controlled entities

5 INCOME TAX (continued)

	CONSOLIDATED		PARENT	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
Deferred income tax				
Deferred income tax at 30 June relates to the following:				
Balance sheet				
Deferred tax assets				
Provisions	78,378	77,220	472	90
Coal rebates payable	54,492	42,545	-	-
Employee benefits	47,298	50,838	3,139	9,536
Accrued and other payables	27,327	19,625	(2)	-
Doubtful debts	2,408	2,856	2,724	3,162
Application of AASB 132 and 139	663	-	-	-
Gross deferred income tax assets	210,566	193,084	6,333	12,788
Amount netted against deferred tax liabilities in accordance with AASB 112	(125,644)	(88,082)	-	-
Net deferred tax assets	84,922	105,002	6,333	12,788
Deferred tax liabilities				
Accelerated depreciation for tax purposes	128,692	106,990	111	(283)
Mining assets recognised for accounting purposes	76,104	73,907	-	-
Application of AASB 132 and 139	21,592	-	319	-
Accrued income and other	15,943	9,754	51	374
Unremitted earnings of associates	14,142	32,477	-	-
Warehouse stock	6,293	3,467	-	-
Deferred acquisition costs	5,135	4,894	-	-
Gross deferred income tax liabilities	267,901	231,489	481	91
Amount netted against deferred tax assets in accordance with AASB 112	(125,644)	(88,082)	-	-
Net deferred tax liabilities	142,257	143,407	481	91
Income statement				
Provisions	(1,158)	(2,022)	-	-
Coal rebates payable	(11,947)	(2,302)	-	-
Employee benefits	3,540	7,812	6,397	(2,519)
Doubtful debts	448	(529)	438	(3,162)
Depreciation	23,899	1,551	394	(616)
Application of AASB 132 and 139	19,120	-	(59)	-
Unremitted earnings of associates	(18,335)	(1,145)	-	-
Deferred gains and losses on foreign exchange contracts	-	-	(669)	673
Unrealised profit on sale of assets	-	-	-	(14,037)
Accruals, stock and other	3,740	(681)	430	(315)
Deferred tax expense/(credit)	19,307	2,684	6,931	(19,976)
Unrecognised deferred tax asset in respect of capital losses in Australia - available indefinitely	80,219	98,248	-	-

Notes to the financial statements

for the year ended 30 June 2006 - Wesfarmers Limited and its controlled entities

5 INCOME TAX (continued)

Tax consolidation

Wesfarmers Limited and its 100% owned Australian resident subsidiaries formed a tax consolidated group with effect from 1 July 2002. Wesfarmers Limited is the head entity of the tax consolidated group. Members of the group have entered into a tax sharing arrangement in order to allocate income tax expense to the wholly owned subsidiaries on an actual liability 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. At balance date, the possibility of default is considered remote.

Tax effect accounting by members of the tax consolidated group

Members of the tax consolidated group have entered into a tax funding agreement. The group has applied the group allocation approach in determining the appropriate amount of current taxes to allocate to members of the tax consolidated group. The tax funding agreement provides for each member of the tax consolidated group to pay a tax equivalent amount to or from the parent in accordance with their current tax liability or current tax asset. Such amounts are reflected in amounts receivable from or payable to the parent company in their accounts and are settled as soon as practicable after the lodgment of the consolidated return and payment of the tax liability.

6 EARNINGS PER SHARE

Basic earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares (excluding employee reserved shares treated as in-substance options) outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares (excluding employee reserved shares treated as in-substance options) outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

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

	CONSOLIDATED	
	2006 \$000	2005 \$000
Net profit attributable to ordinary equity holders of the parent	1,048,142	701,837
Significant item - net gain on disposal of investment in an associate - Australian Railroad Group Pty Ltd (net of tax of \$56,153,000)	178,706	-
Net profit attributable to ordinary equity holders of the parent before significant item	869,436	701,837

Notes to the financial statements

for the year ended 30 June 2006 - Wesfarmers Limited and its controlled entities

6 EARNINGS PER SHARE (continued)

	CONSOLIDATED	
	2006 '000	2005 '000
Weighted average number of ordinary shares for basic earnings per share	368,946	365,354
Effect of dilution - employee reserved shares	4,199	5,122
Weighted average number of ordinary shares adjusted for the effect of dilution	<u>373,145</u>	<u>370,476</u>
	CENTS	CENTS
Earnings per share (cents per share)		
- basic for profit for the year attributable to ordinary equity holders of the parent	284.0	192.0
- diluted for profit for the year attributable to ordinary equity holders of the parent	280.9	189.4
- basic for profit for the year attributable to ordinary equity holders of the parent before gain on sale of associate	235.6	192.0
- diluted for profit for the year attributable to ordinary equity holders of the parent before gain on sale of associate	<u>233.0</u>	<u>189.4</u>

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, apart from the normal conversion of employee reserved shares (treated as in-substance options) to unrestricted ordinary shares.

Notes to the financial statements

for the year ended 30 June 2006 - Wesfarmers Limited and its controlled entities

	CONSOLIDATED		PARENT	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
7 DIVIDENDS PAID AND PROPOSED				
<i>Declared and paid during the year (fully franked at 30%)</i>				
Final franked dividend for 2005: \$1.27 (2004: 92 cents)	480,114	346,246	480,114	346,246
Interim franked dividend for 2006: 65 cents (2005: 53 cents)	245,728	200,363	245,728	200,363
	725,842	546,609	725,842	546,609
<i>Proposed and not recognised as a liability (fully franked at 30%)</i>				
Final franked dividend for 2006: \$1.50 (2005: \$1.27)	567,063	480,114	567,063	480,114
Franking credit balance				
Franking credits available for future years at 30% adjusted for debits and credits arising from the payment of income tax payable, and from recognised dividends receivable or payable	171,434	146,555		
Impact on the franking account of dividends proposed before the financial report was issued but not recognised as a distribution to equity holders during the period	(243,027)	(205,763)		
8 CASH AND CASH EQUIVALENTS				
Cash on hand and in transit	32,800	27,031	6	6
Cash at bank and on deposit	57,246	56,815	33,286	27,595
	90,046	83,846	33,292	27,601
Cash at bank earns interest at floating rates based on daily bank deposit rates.				
Short-term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.				
Reconciliation to cash flow statement				
For the purposes of the cash flow statement, cash and cash equivalents comprise the following:				
Cash at bank and in hand	32,800	27,031	6	6
Short term deposits	57,246	56,815	33,286	27,595
Bank overdraft	(6,931)	(6,808)	-	-
	83,115	77,038	33,292	27,601

Notes to the financial statements

for the year ended 30 June 2006 - Wesfarmers Limited and its controlled entities

	CONSOLIDATED		PARENT	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
8 CASH AND CASH EQUIVALENTS (continued)				
Reconciliation of net profit after tax to net cash flows from operations				
Net profit	1,048,142	701,837	968,860	586,605
Adjustments				
Depreciation	283,467	188,861	1,761	2,166
Writedown of inventory to net realisable value	28,707	17,156	-	-
Net gain on disposal of available-for-sale investments	(1,722)	-	-	-
Net gain on disposal of property, plant and equipment	(3,174)	(8,722)	(721)	(102)
Net gain on disposal of investment in associate	(234,859)	-	-	-
Share of associates' net profits	(56,898)	(53,528)	-	-
Dividends and distributions received from associates	44,238	24,745	-	-
Capitalised borrowing costs	(4,488)	(1,583)	-	-
Discount expense	14,334	1,074	-	-
Other	7,087	11,842	(2,093)	943
Changes in assets and liabilities				
(Increase)/decrease in inventories	(1,538)	34,608	-	-
(Increase)/decrease in trade and other receivables	(21,981)	49,529	(2,071)	(3,354)
(Increase)/decrease in prepayments	4,454	2,072	611	-
(Increase)/decrease in pension assets	(5,262)	-	(5,262)	4,762
(Increase)/decrease in deferred tax assets	20,080	(15,548)	9,618	-
(Decrease)/increase in deferred tax liabilities	(22,869)	20,247	761	-
(Decrease)/increase in current tax liability	114,482	(35,922)	(29,862)	(19,423)
(Decrease)/increase in trade and other payables	(52,750)	(12,864)	1,273	5,810
(Decrease)/increase in provisions	(23,841)	4,591	(3,252)	25,151
(Decrease)/increase in pension liability	(6,555)	6,555	(6,555)	-
Net cash flows from operating activities	1,129,054	934,950	933,068	602,558
Non-cash financing and investing activities				
Acquisition of rights to mine via coal rebates payable	106,781	150,704	-	-
Recognition of mineral exploration via mine rehabilitation provision	15,732	-	-	-
9 TRADE AND OTHER RECEIVABLES				
Current				
Trade receivables	718,139	725,421	5,466	8,146
Allowance for doubtful debts	(7,282)	(9,031)	-	-
Reinsurance and other recoveries receivable	243,605	241,753	-	-
Finance advances and loans	91,005	92,438	-	-
Allowance for doubtful debts	(611)	(806)	-	-
Related party receivables:				
Subsidiaries	-	-	1,344,316	2,188,267
Allowance for doubtful debts	-	-	(9,081)	(10,541)
Associates	4,367	4,239	-	-
Prepayments	53,988	54,826	752	5,065
Other debtors	91,421	96,140	6	19
	1,194,632	1,204,980	1,341,459	2,190,956
Non-current				
Reinsurance and other recoveries receivable	103,564	69,468	-	-
Other debtors	9,998	881	5,262	128
	113,562	70,349	5,262	128

Notes to the financial statements

for the year ended 30 June 2006 - Wesfarmers Limited and its controlled entities

	CONSOLIDATED		PARENT	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
10 INVENTORIES				
Raw materials at cost	75,834	49,847	-	-
Raw materials at net realisable value	6,484	6,234	-	-
Work in progress at cost	17,254	24,099	-	-
Work in progress at net realisable value	11,883	-	-	-
Finished goods at cost	1,033,266	1,067,196	-	-
Finished goods at net realisable value	1,677	2,271	-	-
Total inventories at the lower of cost and net realisable value	1,146,398	1,149,647	-	-
11 OTHER INSURANCE ASSETS				
Bank bills receivable	559,055	534,598	-	-
Deferred acquisition costs	99,685	99,296	-	-
	658,740	633,894	-	-
Movements in deferred acquisition costs				
At beginning of year	99,296	96,100	-	-
Acquisition costs deferred	100,431	92,910	-	-
Costs charged to profit and loss	(95,686)	(90,608)	-	-
Other movements	(4,356)	894	-	-
	99,685	99,296	-	-
12 AVAILABLE-FOR-SALE FINANCIAL ASSETS				
Shares in listed companies at fair value (2005: at cost)	4,935	10,198	-	-
Shares in unlisted companies at fair value (2005: at cost)	820	894	-	-
	5,755	11,092	-	-
Available-for-sale investments consist of investments in ordinary shares, and therefore have no fixed maturity date or coupon rate. The fair value of the unlisted available-for-sale investments has been estimated using appropriate valuation techniques.				
13 OTHER FINANCIAL ASSETS				
Investments in controlled entities at cost	-	-	2,934,067	2,934,067
Loans to controlled entities at cost	-	-	43	1,469,120
	-	-	2,934,110	4,403,187
14 INVESTMENTS IN ASSOCIATES				
Shares and units in associates	259,130	418,031	-	-
Loans to associates at cost	20,083	21,433	-	-
	279,213	439,464	-	-
Fair value of listed investments in associates				
Bunnings Warehouse Property Trust	136,501	128,993	-	-
Share of associates' commitments				
Capital commitments	42,294	48,215	-	-
Lease commitments	18,846	19,860	-	-

Notes to the financial statements

for the year ended 30 June 2006 - Wesfarmers Limited and its controlled entities

14 INVESTMENTS IN ASSOCIATES (continued)

ASSOCIATES	PRINCIPAL ACTIVITY	OWNERSHIP		SHARE OF REVENUES	
		2006 %	2005 %	2006 %	2005 %
Air Liquide WA Pty Ltd	Industrial gases	40.0	40.0	19,440	18,928
Albany Woolstores Pty Ltd	Wool handling	35.0	35.0	-	-
Australian Railroad Group Pty Ltd	Rail freight	-	50.0	215,705	228,447
Bengalla Agricultural Company Pty Ltd	Dairy farming	40.0	40.0	32	104
Bengalla Coal Sales Company Pty Limited	Coal mining	40.0	40.0	-	-
Bengalla Mining Company Pty Limited	Coal mining	40.0	40.0	-	-
Bunnings Warehouse Property Trust	Property investment	22.6	22.6	12,479	11,441
Gresham Partners Group Limited	Investment banking	50.0	50.0	25,632	18,967
Gresham Private Equity Fund 1	Private equity fund	50.6	50.6	13,420	4,991
Gresham Private Equity Fund No. 2	Private equity fund	67.4	67.4	1,581	311
Oversea & General Stevedoring Co Pty Limited	Investment	50.0	50.0	11	9
Queensland Nitrates Management Pty Ltd	Chemical manufacture	50.0	50.0	-	-
Queensland Nitrates Pty Ltd	Chemical manufacture	50.0	50.0	40,992	40,044
Unigas	LP gas distribution	50.0	50.0	85,174	74,147
Wespine Industries Pty Ltd	Pine sawmillers	50.0	50.0	39,678	38,943
				454,144	436,332

Whilst the consolidated entity's interest in the unitholders' funds of Gresham Private Equity Fund No. 2 amounts to 67.4%, it is not a controlled entity as the consolidated entity does not have the capacity to dominate decision-making in relation to its financial and operating policies. Such control requires a unitholders' resolution of 75% of votes pursuant to the Fund's trust deed.

Each of the above entities is incorporated in Australia.

Notes to the financial statements

for the year ended 30 June 2006 - Wesfarmers Limited and its controlled entities

14 INVESTMENTS IN ASSOCIATES (continued)

SHARE OF PROFIT/LOSS		SHARE OF ASSETS		SHARE OF LIABILITIES		CARRYING AMOUNT	
2006 %	2005 %	2006 %	2005 %	2006 %	2005 %	2006 %	2005 %
4,008	3,521	11,483	11,681	6,821	6,712	4,661	4,101
-	-	670	670	294	294	376	376
11,344	12,849	-	483,055	-	298,539	-	184,516
(42)	14	563	700	816	911	(253)	(211)
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
17,021	18,076	155,351	138,789	51,415	43,611	103,936	95,178
2,266	3,324	41,925	46,039	13,702	22,711	28,223	23,328
11,717	5,915	36,287	57,816	242	288	30,625	36,399
(1,630)	(2,693)	36,028	21,546	838	1,349	35,190	20,198
865	637	493	488	5	8	6,000	6,000
-	-	-	-	-	-	-	-
3,088	3,862	121,787	122,346	89,659	92,486	32,128	29,860
1,431	1,193	15,401	16,461	7,417	6,605	7,984	9,856
6,830	6,830	32,955	32,916	22,695	24,486	10,260	8,430
56,898	53,528	452,943	932,507	193,904	498,000	259,130	418,031

	CONSOLIDATED		PARENT	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
15 PROPERTY, PLANT AND EQUIPMENT				
Freehold land				
Cost	186,394	167,911	1,137	1,051
Accumulated impairment		-	-	-
Net carrying amount	186,394	167,911	1,137	1,051
Net carrying amount at beginning of year	167,911	134,817	1,051	1,051
Additions	28,158	53,562		-
Transfers	(4,112)	(15,766)	104	-
Disposals	(2,665)	(4,620)	(18)	-
Exchange differences	(2,898)	(82)	-	-
Net carrying amount at end of year	186,394	167,911	1,137	1,051
Assets in course of construction included above	66,983	71,147	-	-
Buildings				
Cost	378,698	296,330	3,132	3,195
Accumulated depreciation and impairment	(85,458)	(67,859)	(1,338)	(1,372)
Net carrying amount	293,240	228,471	1,794	1,823
Net carrying amount at beginning of year	228,471	182,359	1,823	1,929
Additions	98,631	54,922	-	-
Transfers	(15,987)	8,991	50	-
Disposals	(1,068)	(5,969)	(33)	-
Acquisitions of controlled entities (adjustment)	-	(1,095)	-	-
Depreciation expense	(13,344)	(10,603)	(46)	(106)
Exchange differences	(3,463)	(134)	-	-
Net carrying amount at end of year	293,240	228,471	1,794	1,823
Assets in course of construction included above	76,113	34,851	-	-

Notes to the financial statements

for the year ended 30 June 2006 - Wesfarmers Limited and its controlled entities

	CONSOLIDATED		PARENT	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
15 PROPERTY, PLANT AND EQUIPMENT (continued)				
Leasehold improvements				
Cost	89,991	120,030	1,864	1,864
Accumulated depreciation and impairment	(29,454)	(24,484)	(344)	(309)
Net carrying amount	60,537	95,546	1,520	1,555
Net carrying amount at beginning of year	95,546	46,846	1,555	1,026
Additions	41,457	35,828	-	553
Transfers	(71,514)	16,104	-	-
Disposals	(156)	(185)	-	-
Depreciation expense	(4,668)	(3,047)	(35)	(24)
Exchange differences	(128)	-	-	-
Net carrying amount at end of year	60,537	95,546	1,520	1,555
Assets in course of construction included above	7,470	51,109	-	-
Plant, vehicles and equipment				
Cost	2,560,052	2,120,052	31,707	29,857
Accumulated depreciation and impairment	(1,299,474)	(1,061,742)	(11,408)	(10,808)
Net carrying amount	1,260,578	1,058,310	20,299	19,049
Net carrying amount at beginning of year	1,058,310	1,026,107	19,049	19,745
Additions	391,772	260,745	3,248	1,521
Transfers	(3,652)	(51,524)	-	-
Disposals	(9,401)	(16,308)	(319)	(181)
Acquisitions of controlled entities	190	1,516	-	-
Impairment charge	(4)	(557)	-	-
Depreciation expense	(171,610)	(161,626)	(1,679)	(2,036)
Exchange differences	(5,027)	(43)	-	-
Net carrying amount at end of year	1,260,578	1,058,310	20,299	19,049
Assets in course of construction included above	239,354	148,505	1,221	25
Mineral exploration and development costs				
Cost	760,863	509,287	-	-
Accumulated depreciation and impairment	(169,981)	(76,149)	-	-
Net carrying amount	590,882	433,138	-	-
Net carrying amount at beginning of year	433,138	217,156	-	-
Additions	59,251	60,135	-	-
Transfers	192,384	169,432	-	-
Disposals	(46)	-	-	-
Depreciation expense	(93,845)	(13,585)	-	-
Net carrying amount at end of year	590,882	433,138	-	-
Assets in course of construction included above	6,182	5,962	-	-
Plantations				
Net carrying amount	4,605	4,853	-	-
Net carrying amount at beginning of year	4,853	5,304	-	-
Charged to profit and loss	(248)	(451)	-	-
Net carrying amount at end of year	4,605	4,853	-	-
Total				
Cost	3,980,603	3,218,463	37,840	35,967
Accumulated depreciation and impairment	(1,584,367)	(1,230,234)	(13,090)	(12,489)
Net carrying amount	2,396,236	1,988,229	24,750	23,478

Notes to the financial statements

for the year ended 30 June 2006 - Wesfarmers Limited and its controlled entities

	CONSOLIDATED		PARENT	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
16 GOODWILL				
Cost	1,473,231	1,469,282	-	-
Accumulated impairment	(3,019)	(3,016)	-	-
Net carrying amount	1,470,212	1,466,266	-	-
Net carrying amount at beginning of year	1,466,266	1,473,090	-	-
Additions	2,351	2,382	-	-
Disposals	-	(6,190)	-	-
Acquisitions of controlled entities	1,598	-	-	-
Impairment charge	(3)	(3,016)	-	-
Net carrying amount at end of year	1,470,212	1,466,266	-	-
Allocation of goodwill to cash generating units				
Carrying amount of goodwill				
Home improvement segment	845,525	843,177	-	-
Industrial and safety segment	439,055	439,055	-	-
Insurance segment	173,670	172,072	-	-
Other	11,962	11,962	-	-
	1,470,212	1,466,266	-	-

Key assumptions used in value in use calculations

The recoverable amount of the cash generating units have been determined based on value in use calculations using cash flow projections based on business corporate plans approved by senior management covering a five year period. These plans have been adjusted to exclude the costs and benefits of expansion capital, and have been prepared in the understanding that many actual outcomes will differ from assumptions used in the calculations.

Cash flows beyond the five year period are extrapolated using the estimated growth rates stated below, which are based on management estimates taking into past historical performance and expected long-term operating conditions. The growth rates do not exceed the long term average growth rate for the business in which the cash generating unit operates. Discount rates are based on a risk-free rate (using the 10-year swap rate) plus risk weightings for various risks, such as technical, industry, country, political, currency, supplier and social risk. Other assumptions are consistent with external sources of information and use consistent and conservative estimates for such variables as terminal cash flow multiples.

The valuations have been prepared for the purpose of ensuring that the cash generating units' carrying amounts do not exceed their recoverable amount and do not purport to be a market valuation of the relevant business operations.

Management believes that any reasonably possible change in the key assumptions below would not cause the carrying amount of any cash generating units to exceed their recoverable amount.

	CONSOLIDATED	
	2006 \$000	2005 \$000
Home improvement segment		
Discount rate	8.8%	8.6%
Growth rate beyond five year financial plan	3.0%	3.0%
Cost inflation rate	3.0%	3.0%
Cash flow multiple for calculation of terminal value	5	5

Other key assumptions include retail sales and trade sales inflation rates (which are based on past experience) and the programme for store upgrades (which are based on management projections and are consistent with past experience).

Notes to the financial statements

for the year ended 30 June 2006 - Wesfarmers Limited and its controlled entities

	CONSOLIDATED		PARENT	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
16 GOODWILL (continued)				
Key assumptions used in value in use calculations (continued)				
<i>Industrial and safety segment</i>				
Discount rate	8.8%	8.6%		
Growth rate beyond five year financial plan	3.0%	3.0%		
Cost inflation rate	3.0%	2.5%		
Cash flow multiple for calculation of terminal value	5	5		
Other key assumptions include sales growth rates and stock turnover rates (which are based on past experience) and gross margin change (which are based on management projections and are consistent with past experience).				
<i>Insurance segment</i>				
Discount rate	8.8%	8.6%		
Growth rate beyond five year financial plan	3.0%	3.0%		
Cost inflation rate	3.0%	3.0%		
Cash flow multiple for calculation of terminal value	5	5		
Other key assumptions include gross written premium growth (which are based on industry projections and management strategies) and the gross and net earned loss ratios (which are based on long term historical claims experience).				
17 TRADE AND OTHER PAYABLES				
Current				
Trade payables	752,908	777,024	5,817	21,355
Related party payables				
Subsidiaries	-	-	10,980	2,472,081
	752,908	777,024	16,797	2,493,436
Non-current				
Other creditors and accruals	4,352	15,204	-	-
18 INTEREST-BEARING LOANS AND BORROWINGS				
Current				
Secured				
Bank loans	5,706	4,810	-	-
Unsecured				
Bank loans	92,587	138,537	-	27,000
Commercial paper	122,141	94,309	81,358	71,343
Bank bills	149,787	230,102	149,787	230,102
Bank overdrafts	6,931	6,808	-	-
Corporate bonds	90,000	100,000	90,000	100,000
Other loans	886	340	-	-
	468,038	574,906	321,145	428,445

Notes to the financial statements

for the year ended 30 June 2006 - Wesfarmers Limited and its controlled entities

	CONSOLIDATED		PARENT	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
18 INTEREST-BEARING LOANS AND BORROWINGS (continued)				
Non-current				
Secured				
Bank loans	-	1,376	-	-
Unsecured				
Bank bills	464,748	520,686	464,748	520,686
Corporate bonds	606,370	699,659	606,370	699,659
Other loans	3,757	3,383	-	-
	1,074,875	1,225,104	1,071,118	1,220,345

Secured loans

Specific and floating charges over the assets of Wesfarmers Kleenheat Elpiji Limited.

Terms and conditions

Secured bank loans have a term of less than one year and an effective interest rate, as at 30 June 2006, of 10.2% per annum, payable semi-annually. The loans are denominated in Bangladeshi taka (BDT).

The balance of bank loans are denominated in New Zealand Dollars (NZD) or Australian Dollars (AUD) and have an average rate at 30 June 2006 of 7.0% and an average term to maturity of less than one year. The NZD loan can be drawn on an overnight basis or for terms of up to six months and had an average effective interest rate as at 30 June 2006 of 7.6% per annum.

Commercial paper issued as at 30 June 2006 is denominated in AUD and NZD and is drawn under a number of standby facilities with maturities of up to eleven months and an average maturity of seven months. The effective interest rates on the commercial paper on issue as at 30 June 2006 ranged from 5.7% to 7.5% with an average rate of 6.4% per annum.

Bank bills are drawn under facilities with maturities ranging from four months to two and a half years with an average term of thirteen months. The bills drawn as at 30 June 2006 had effective interest rates ranging from 5.0% to 6.7% and an average of 5.9% per annum.

Bank overdrafts had an average rate of 6.8% as at 30 June 2006.

Corporate bonds have maturities ranging from January 2007 to March 2009, with an average maturity of 1.9 years.

Effective interest rates range from 6.1% to 6.5% with an average of 6.3% per annum.

	CONSOLIDATED		PARENT	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
Financing facilities available				
Total facilities				
Bank loans	110,801	154,134	-	30,000
Commercial paper	300,000	300,000	250,000	250,000
Bank bills	1,330,000	1,280,000	1,330,000	1,280,000
Bank overdrafts	13,189	14,200	5,000	5,000
	1,753,990	1,748,334	1,585,000	1,565,000
Facilities used at balance date				
Bank loans	96,927	143,065	-	27,000
Commercial paper	122,900	95,000	82,000	72,000
Bank bills	618,000	754,000	618,000	754,000
Bank overdrafts	6,931	6,808	-	-
	844,758	998,873	700,000	853,000
Facilities unused at balance date				
Bank loans	13,874	11,069	-	3,000
Commercial paper	177,100	205,000	168,000	178,000
Bank bills	712,000	526,000	712,000	526,000
Bank overdrafts	6,258	7,392	5,000	5,000
	909,232	749,461	885,000	712,000
Total facilities	1,753,990	1,748,334	1,585,000	1,565,000
Facilities used at balance date	844,758	998,873	700,000	853,000
Facilities unused at balance date	909,232	749,461	885,000	712,000

Notes to the financial statements

for the year ended 30 June 2006 - Wesfarmers Limited and its controlled entities

	CONSOLIDATED		PARENT	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
19 PROVISIONS				
Employee benefits				
Current	124,849	137,146	5,882	24,758
Non-current	44,777	34,843	9,846	7,333
	169,626	171,989	15,728	32,091
Mine and plant rehabilitation				
Current	12,725	10,856	-	-
Non-current	197,340	187,388	-	-
	210,065	198,244	-	-
At beginning of year	198,244	177,308	-	-
Arising during year	22,226	25,193	-	-
Utilised	(10,947)	(4,388)	-	-
Discount rate adjustment	542	131	-	-
At end of year	210,065	198,244	-	-
Restructuring and make good				
Current	3,546	25,860	-	-
Non-current	16,661	6,120	-	-
	20,207	31,980	-	-
At beginning of year	31,980	45,698	-	-
Arising during year	2,337	682	-	-
Utilised	(11,746)	(14,158)	-	-
Discount rate adjustment	(2,410)	(314)	-	-
Exchange differences	46	72	-	-
At end of year	20,207	31,980	-	-
Total provisions				
Current	141,120	173,862	5,882	24,758
Non-current	258,778	228,351	9,846	7,333
	399,898	402,213	15,728	32,091

Mine and plant rehabilitation

In accordance with mining lease agreements and Wesfarmers Group policies, obligations exist to remediate areas where mining and manufacturing activity has taken place. Work is ongoing at various sites and in some cases will extend over periods beyond 20 years. Provisions have generally been calculated assuming current technologies and using discount rates of between 0.6% and 6.0%. Discount rates at the low end of the range have been used for minesite rehabilitation reflecting a conservative approach to the assessment of liabilities.

Restructuring and make good

These provisions relate principally to the closure of retail outlets within the Home Improvement division. Provisions are carried in respect of stores where steps have been taken to implement the restructuring plan, including discussions with affected personnel. Provisions have been calculated using discount rates of between 9.5% and 10.0%.

Notes to the financial statements

for the year ended 30 June 2006 - Wesfarmers Limited and its controlled entities

	CONSOLIDATED		PARENT	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
20 INSURANCE LIABILITIES				
Unearned insurance premiums				
Current	499,613	524,062	10,766	8,930
At beginning of year	524,062	541,831	8,930	5,286
Deferral of premium on contracts written during year	499,613	524,062	10,766	8,930
Earning of premiums deferred in prior years	(524,062)	(541,831)	(8,930)	(5,286)
At end of year	499,613	524,062	10,766	8,930
Outstanding insurance claims				
Current	374,304	312,518	19,996	9,104
Non-current	225,417	195,245	-	-
	599,721	507,763	19,996	9,104
Total				
Current	873,917	836,580	30,762	18,034
Non-current	225,417	195,245	-	-
	1,099,334	1,031,825	30,762	18,034
Outstanding insurance claims				
Gross central estimate of outstanding claims liabilities	588,365	496,407		
Discount to present value	(51,737)	(42,836)		
Claim handling expenses	23,827	19,938		
Risk margin	39,266	34,254		
Liability for outstanding claims	599,721	507,763		

The overall risk margin is determined allowing for diversification between classes of business and the relative uncertainty of the outstanding claims estimate for each class. The assumptions regarding uncertainty for each class are applied to the net central estimates and the results are aggregated, allowing for diversification, in order to arrive at an overall net provision that is intended to provide a probability of sufficiency between 85% and 90%. The probability of adequacy at 30 June 2006 is approximately 85% which is within the Group's internal target range of 85% to 90%.

The risk margin included in net outstanding claims is 13.1% of the central estimate (2005: 12.1%). The discount rate used is 5.9% (2005: 5.2% to 5.5%).

	CONSOLIDATED			
	GROSS \$000	REINSURANCE \$000	2006 NET \$000	2005 NET \$000
Movement in outstanding insurance claims				
At beginning of year	507,763	(201,340)	306,423	250,472
Incurred claims recognised in profit and loss	797,143	(348,241)	448,902	412,160
Net claim payments	(705,814)	272,743	(433,071)	(356,209)
Other	629	-	629	-
At end of year	599,721	(276,838)	322,883	306,423

Notes to the financial statements

for the year ended 30 June 2006 - Wesfarmers Limited and its controlled entities

20 INSURANCE LIABILITIES (continued)

Claims development table

The following table shows the development of the estimated ultimate incurred cost for the public liability and workers compensation classes of business in Australia for the five most recent accident years. The estimated ultimate incurred cost at each point in time consists of the payments to date plus the actuarial estimate of outstanding claims. The subsequent components in the table provide a breakdown of the current estimate of ultimate incurred cost between payments to date and the various components of the outstanding claims liability.

	CONSOLIDATED ACCIDENT YEAR						Total \$000
	Prior \$000	2002 \$000	2003 \$000	2004 \$000	2005 \$000	2006 \$000	
Ultimate claims cost estimate							
At end of accident year							
	-	15,533	42,970	49,680	54,246	63,124	225,553
One year later	-	32,531	42,748	45,298	52,253	-	172,830
Two years later	-	32,760	39,700	43,256	-	-	115,716
Three years later	-	33,106	39,733	-	-	-	72,839
Four years later	-	32,105	-	-	-	-	32,105
Current estimate of ultimate claims cost	6,287	32,105	39,733	43,256	52,253	63,124	236,758
Cumulative payments	-	(23,016)	(22,549)	(17,861)	(15,518)	(7,534)	(86,478)
Undiscounted central estimate	6,287	9,089	17,184	25,395	36,735	55,590	150,280
Discount to present value	(917)	(1,537)	(2,937)	(4,203)	(6,070)	(9,133)	(24,797)
Deferred premium	-	-	-	-	-	-	-
Discounted central estimate	5,370	7,552	14,247	21,192	30,665	46,457	125,483
Claims handling expense	359	574	1,035	1,429	2,009	3,058	8,464
Risk margin	1,101	1,574	2,711	3,868	5,581	8,437	23,272
Net outstanding claims liabilities	6,830	9,700	17,993	26,489	38,255	57,952	157,219
Reinsurance recoveries on outstanding claims liabilities and other recoveries	5,368	4,350	15,786	9,886	9,605	13,724	58,719
Gross outstanding claims liabilities	12,198	14,050	33,779	36,375	47,860	71,676	215,938

The reconciliation of the movement in outstanding claims liabilities and the claims development table have been presented on a net of reinsurance and other recovery bases to give the most meaningful insight into the impact on the income statement.

	CONSOLIDATED		PARENT	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
21 OTHER LIABILITIES				
Coal rebates payable				
Current	122,426	77,751	-	-
Non-current	41,418	39,461	-	-
	163,844	117,212	-	-
Deferred coal revenue				
Current	2,188	2,209	-	-
Non-current	15,609	22,397	-	-
	17,797	24,606	-	-
Total				
Current	124,614	79,960	-	-
Non-current	57,027	61,858	-	-
	181,641	141,818	-	-

Notes to the financial statements

for the year ended 30 June 2006 - Wesfarmers Limited and its controlled entities

	CONSOLIDATED		PARENT	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
22 CONTRIBUTED EQUITY				
Ordinary shares	1,901,522	1,901,164	1,895,261	1,895,261
Employee shares	(159,492)	(215,354)	(152,002)	(204,512)
	1,742,030	1,685,810	1,743,259	1,690,749

All ordinary shares are fully paid.

Shares issued to employees under the share loan plan referred to in note 34 (termed as "employee reserved shares") are fully paid via a limited recourse loan to the employee from the parent and a subsidiary, and as such the arrangement is accounted for as in-substance options. Loans are repaid from dividends declared, capital returns and cash repayments. Once the loan is repaid in full the employee reserved shares are converted to unrestricted ordinary shares.

Accordingly, the parent does not have authorised capital nor par value in respect of its issued shares.

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

	THOUSANDS	\$'000	THOUSANDS	\$'000
<i>Movement in ordinary shares on issue</i>				
At 1 July 2004	376,354	2,214,772	376,354	2,208,869
Employee reserved shares issued 3 December 2004 at \$38.17 per share	1,688	64,433	1,688	64,433
Return of capital - \$1 per share on 2 March 2005	-	(378,041)	-	(378,041)
At 1 July 2005	378,042	1,901,164	378,042	1,895,261
Adjustment in relation to 2001 ownership simplification plan	-	358	-	-
At 30 June 2006	378,042	1,901,522	378,042	1,895,261
<i>Movement in employee reserved shares on issue</i>				
At 1 July 2004	14,325	281,428	14,039	273,661
Exercise of in-substance options	(5,519)	(98,040)	(5,429)	(95,791)
Dividends applied	-	(18,411)	-	(17,947)
Return of capital - \$1 per share on 2 March 2005	-	(11,545)	-	(11,150)
Issued 3 December 2004 at \$38.17 per share	1,688	64,433	1,522	58,083
Foreign currency translation adjustment	-	136	-	-
Long term incentives applied	-	(2,632)	-	(2,329)
Other movement	-	(15)	-	(15)
At 1 July 2005	10,494	215,354	10,132	204,512
Exercise of in-substance options	(2,270)	(36,496)	(2,206)	(35,022)
Dividends applied	-	(18,173)	-	(17,488)
Foreign currency translation adjustment	-	(1,193)	-	-
At 30 June 2006	8,224	159,492	7,926	152,002

Notes to the financial statements

for the year ended 30 June 2006 - Wesfarmers Limited and its controlled entities

23 RESERVES

	CONSOLIDATED						PARENT		
	RESTRUCTURE TAX RESERVE \$000	CAPITAL RESERVE \$000	FOREIGN CURRENCY TRANSLATION RESERVE \$000	HEDGING RESERVE \$000	AVAILABLE FOR SALE RESERVE \$000	TOTAL \$000	RESTRUCTURE TAX RESERVE \$000	HEDGING RESERVE \$000	TOTAL \$000
Balance at 1 July 2004	128,168	24,170	3,530	-	-	155,868	128,168	-	128,168
Tax losses in relation to the 2001 simplification plan	(17,225)	-	-	-	-	(17,225)	(17,225)	-	(17,225)
Currency translation differences	-	-	2,176	-	-	2,176	-	-	-
Other	-	(53)	-	-	-	(53)	-	-	-
Balance at 30 June 2005	110,943	24,117	5,706	-	-	140,766	110,943	-	110,943
Application of AASB 132 and AASB 139	-	-	-	77,109	11,066	88,175	-	(2,032)	(2,032)
Tax losses in relation to the 2001 simplification plan	(481)	-	-	-	-	(481)	(481)	-	(481)
Currency translation differences	-	-	(8,171)	-	-	(8,171)	-	-	-
Remeasurement of financial instruments - gross	-	-	-	21,326	(837)	20,489	-	3,771	3,771
Tax effect of remeasurement	-	-	-	(6,398)	251	(6,147)	-	(1,131)	(1,131)
Transfer to net profit - gross	-	-	-	(61,724)	(1,722)	(63,446)	-	196	196
Tax effect of transfer to net profit	-	-	-	18,517	517	19,034	-	(59)	(59)
Transfer to inventory and other assets - gross	-	-	-	(286)	-	(286)	-	-	-
Tax effect of transfer to inventory and other assets	-	-	-	86	-	86	-	-	-
Balance at 30 June 2006	110,462	24,117	(2,465)	48,630	9,275	190,019	110,462	745	111,207

Nature and purpose of reserves**Restructure tax reserve**

The restructure tax reserve is used to record the recognition of tax losses arising from the equity restructuring of the Group under the 2001 ownership simplification plan. These tax losses were generated on adoption by the Group of the tax consolidation regime.

Capital reserve

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

Hedging reserve

This reserve records the portion of the gain or loss on a hedging instrument in a cash flow hedge that is determined to be an effective hedge.

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.

Available for sale reserve

This reserve records fair value changes on available for sale investments.

Notes to the financial statements

for the year ended 30 June 2006 - Wesfarmers Limited and its controlled entities

	CONSOLIDATED		PARENT	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
24 MINORITY INTERESTS				
Interest in:				
Contributed equity	-	-	-	-
Reserves	3	3	-	-
Retained earnings	49	49	-	-
	52	52	-	-

25 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Financial instruments

The Group's principal financial instruments, other than derivatives, comprise bank loans, bank accepted bills, commercial paper, corporate bonds, finance leases and hire purchase contracts, and cash and short-term deposits.

The main purpose of these financial instruments is to raise finance for the Group's operations or to invest surplus funds. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations. The Group also enters into derivative transactions, including principally interest rate swaps and forward currency contracts. The purpose is to manage the interest rate and currency risks arising from the Group's operations and its sources of finance. It is, and has been throughout the period under review, the Group's policy that no speculative trading in financial instruments shall be undertaken. The main risks arising from the Group's financial instruments are cash flow int

of these risks and they are summarised 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 asset, financial liability and equity instrument are disclosed in note 2 to the financial statements.

Cash flow interest rate risk

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

The Group's policy is to limit the Group's exposure to adverse fluctuations in interest rates which could erode Group profitability and adversely affect shareholder value. To manage the interest rate exposure, the Group generally enters into vanilla interest rate swaps, in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount. These swaps are designated to hedge underlying debt obligations. At 30 June 2006, after taking into account the effect of interest rate swaps and natural hedges, approximately 47.2% of the Group's borrowings are exposed to movements in variable rates.

Foreign currency risk

The Group's policy is to protect the Group from currency fluctuations together with maintaining the integrity of business decisions and protecting the competitive position of the Group's activities.

As a result of operations in New Zealand, the Group's balance sheet can be affected by movements in the NZD/AUD exchange rates. The Group mitigates the effect of its structural currency exposure by borrowing in NZD.

The Group's primary currency exposures arise from sales or purchases by an operating unit in currencies other than the unit's functional currency. Approximately 12.8% of the Group's sales are denominated in currencies other than the functional currency of the operating unit making the sale, whilst almost 10.5% of purchases are denominated in currencies other than the unit's functional currency.

The Group requires all its operating units hedge foreign exchange exposures for firm commitments relating to sales or purchases or when highly probable forecast transactions have been identified. The operating units are not required to enter into a hedging instrument if doing so would place them at a competitive disadvantage. The hedging instrument must be in the same currency as the hedged item.

It is the Group's policy not to hedge foreign exchange exposures until a firm commitment is in place or highly probable forecast transactions have been identified.

It is the Group's policy to transact hedge derivatives that match the terms of the hedged item to maximise hedge effectiveness.

At 30 June 2006, the Group had hedged approximately 50.0% (over 5 years) of its foreign currency sales for which firm commitments or highly probably forecast transactions existed at the balance sheet date. These hedge contracts extend out to June 2011.

The parent company transacts all hedges of sales and purchases on a back-to-back basis with external contracts with banks being exactly offset by internal contracts with the relevant subsidiaries. The effect of this is that there is minimal foreign exchange exposure in the parent company. From a Group perspective the internal contracts are eliminated as part of the consolidation process, leaving only the external contracts in the name of Wesfarmers Limited.

Notes to the financial statements

for the year ended 30 June 2006 - Wesfarmers Limited and its controlled entities

25 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Financial instruments (continued)

Commodity price risk

The Group's exposure to commodity price risk is minimal, other than coal price. The Group is exposed to coal price risk in its coal mining operations, which in turn impacts upon the liability for coal rebates payable as indicated in note 2(d). Excluding the foreign exchange component referred to above, this exposure is not hedged as coal is not a traded commodity on a market exchange.

Credit risk

The Group trades only with recognised, creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

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

With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents, available-for-sale financial assets and certain derivative instruments, the Group's exposure to credit risk arises from default of the counter party, with a maximum exposure equal to the carrying amount of these instruments.

Since the Group trades only with recognised third parties, there is no requirement for collateral.

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans/bank accepted bills, commercial paper, corporate bonds, overnight money market, finance leases and hire purchase contracts. At 30 June 2006, 32.8% of the Group's debt will mature in less than one year (2005: 33.0%).

Insurance contracts

The financial condition and operation of the Group are affected by a number of key risks including insurance risk, interest rate risk, currency risk, credit risk, market risk, liquidity risk, financial risk, compliance risk, fiscal risk and operational risk. Notes on the Group's policies and procedures in respect of managing these risks are set out in this note.

Objectives in managing risks arising from insurance contracts and policies for mitigating those risks

The Group has an objective to control insurance risk thus reducing the volatility of operating profits. In addition to the inherent uncertainty of insurance risk, which can lead to significant variability in the loss experience, profits from insurance business are affected by market factors, particularly competition and movements in asset values. Short term variability is, to some extent, a feature of insurance business.

In accordance with Prudential Standards GPS 220 Risk Management for General Insurers and GPS 230 Reinsurance Arrangements for General Insurers issued by the Australian Prudential Regulation Authority (APRA), the Board and senior management of the Group have developed, implemented and maintained a sound and prudent Risk Management Strategy (RMS) and a Reinsurance Management Strategy (REMS).

The RMS and REMS identify the Group's policies and procedures, processes and controls that comprise its risk management and control systems. These systems address all material risks, financial and non-financial, likely to be faced by the Group. Annually, the Board certifies to APRA that adequate strategies have been put in place to monitor those risks, that the Group has systems in place to ensure compliance with legislative and prudential requirements and that the Board has satisfied itself as to the compliance with the RMS and REMS.

The RMS and REMS have been approved by both the Board and APRA. Key aspects of the processes established in the RMS to mitigate risks include:

- the maintenance and use of sophisticated management information systems, which provide up to date, reliable data on the risks to which the business is exposed at any point in time;
- the use of actuarial models based on historical data to calculate premiums and monitor claims patterns;
- the setting and adherence to underwriting guidelines that determine policies and procedures for acceptance of risk;
- the monitoring of natural disasters such as earthquakes, floods, storms and other catastrophes. Exposure to such risks is monitored using catastrophe models;
- the use of reinsurance to limit the Group's exposure to large single claims and accumulation of claims that arise from the same event;
- the monitoring of a reinsurers' credit risk policy to control exposure to reinsurance counter party default;
- the management of assets and liabilities is closely monitored to attempt to match the expected pattern of claims payments with the maturity dates of assets; and
- the reduction in variability in loss experience through diversification over classes of insurance business and geographical segments.

Notes to the financial statements

for the year ended 30 June 2006 - Wesfarmers Limited and its controlled entities

25 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Insurance contracts (continued)

Terms and conditions of insurance business

The terms and conditions attaching to insurance contracts affect the level of insurance risk accepted by the Group. The majority of direct insurance contracts written are entered into on a standard form. There are no special terms and conditions in any non standard contracts that have a material impact on the financial statements.

Concentration of insurance risk

The Group's exposure is diversified across classes of business with risk spread across Australia and New Zealand. Specific processes for monitoring identified concentrations are set out below:

<i>Risk</i>	<i>Source of concentration</i>	<i>Risk management measures</i>
<ul style="list-style-type: none"> • An accumulation of risks arising from a natural peril • A large property loss 	<ul style="list-style-type: none"> • Insured property concentrations • Fire or collapse affecting one building or a group of adjacent buildings 	<ul style="list-style-type: none"> • Accumulation risk modelling, reinsurance protection • Maximum acceptance limits, property risk grading, reinsurance protection
<ul style="list-style-type: none"> • Inclusion of multiple classes of casualty business in the one event 	<ul style="list-style-type: none"> • Response by a multitude of the Group's policies to the one event, for example a construction liability and professional indemnity policy 	<ul style="list-style-type: none"> • Purchase of reinsurance clash

Financial risk

Interest rate risk

The Group is exposed to interest rate risk arising on interest bearing assets. The Group manages some of its exposure to this risk by entering into a fixed/floating interest rate swaps which fix the interest rate that the Group receives on some of its investments. This provides a partial hedge against corresponding movements in the fair value of the insurance liabilities which are affected by movements in the risk free rate.

Credit risk

The credit risk on financial assets of the Group is generally the carrying amount, net of any provisions for doubtful debts. Credit risk exposures are calculated regularly and compared to authorised credit limits before further transactions are undertaken with each counterparty. The Group does not expect any counterparties to fail to meet their obligations and therefore does not require collateral or other security to support credit risk exposures.

Market risk

The Group takes in exposure to market risk including fair value, interest rate and price risk. Market risks arise from open positions in interest rate products which are exposed to general and specific market movements. The market risks that the Group primarily faces are interest rate risk, due to the nature of its investments and liabilities.

Liquidity risk

The Group is exposed to daily calls on its available cash resources from policy claims. Liquidity risk is the risk that payment of obligations may not be met in a timely manner at a reasonable cost. The Group manages this risk by holding its investment portfolio in short term, interest bearing securities, which can be liquidated at short notice.

Notes to the financial statements

for the year ended 30 June 2006 - Wesfarmers Limited and its controlled entities

26 FINANCIAL INSTRUMENTS

Fair values

Set out below is a comparison by category of carrying amounts and fair values of all of the Group's financial instruments recognised in the financial statements.

Market values have been used to determine the fair value of listed available-for-sale investments. The fair values of derivatives and borrowings have been calculated by discounting the expected future cash flows at prevailing interest rates. The fair values of loan notes and other financial assets have been calculated using market interest rates.

	Note	CARRYING AMOUNT		FAIR VALUE	
		2006 \$000	2005 \$000	2006 \$000	2005 \$000
CONSOLIDATED					
Financial assets					
Cash	8	90,046	83,846	90,046	83,846
Trade receivables	9	710,857	716,390	710,857	716,390
Finance advances and loans	9	90,394	91,632	90,394	91,632
Other debtors	9	101,419	97,021	101,419	97,021
Insurance bank bills receivable	11	559,055	534,598	559,055	534,598
Available for sale investments	12	5,755	11,092	5,755	12,807
Loans to associates	14	20,083	21,433	20,083	21,433
Forward currency contracts		73,669	-	73,669	132,697
Interest rate swaps		1,762	-	1,762	1,826
Financial liabilities					
Bank overdraft	18	6,931	6,808	6,931	6,808
Trade payables	17	752,908	777,024	752,908	777,024
Other creditors and accruals	17	4,352	15,204	4,352	15,204
Coal rebate payable	21	163,844	117,212	163,844	117,212
Interest bearing loans and borrowings:					
Secured bank loans	18	5,706	6,186	5,706	6,186
Unsecured bank loans	18	92,587	138,537	92,587	138,537
Commercial paper	18	122,141	94,309	122,141	94,309
Bank bills	18	614,535	750,788	614,535	750,788
Corporate bonds	18	696,370	799,659	696,370	805,469
Other loans	18	4,643	3,723	4,643	3,723
Forward currency contracts		5,142	-	5,142	12,026
Interest rate swaps		6,995	-	6,995	3,226

Notes to the financial statements

for the year ended 30 June 2006 - Wesfarmers Limited and its controlled entities

	Note	CARRYING AMOUNT		FAIR VALUE	
		2006 \$000	2005 \$000	2006 \$000	2005 \$000
26 FINANCIAL INSTRUMENTS (continued)					
Fair values (continued)					
PARENT					
Financial assets					
Cash	8	33,292	27,601	33,292	27,601
Trade receivables	9	5,466	8,146	5,466	8,146
Other debtors	9	6	19	6	19
Loans to controlled entities	13	43	1,469,120	43	1,469,120
Forward currency contracts - external		73,669	-	73,669	132,697
Forward currency contracts - internal back-to-back		5,142	-	5,142	12,026
Interest rate swaps		1,762	-	1,762	984
Financial liabilities					
Trade payables	17	5,817	21,355	5,817	21,355
Loans from subsidiaries	17	10,980	2,472,081	10,980	2,472,081
Interest bearing loans and borrowings:					
Unsecured bank loans	18	-	27,000	-	27,000
Commercial paper	18	81,358	71,343	81,358	71,343
Bank bills	18	614,535	750,788	614,535	750,788
Corporate bonds	18	696,370	799,659	696,370	805,469
Forward currency contracts - external		5,142	-	5,142	12,026
Forward currency contracts - internal back-to-back		73,669	-	73,667	132,697
Interest rate swaps		3,971	-	3,971	3,226

Interest rate risk

The following table sets out the carrying amount, by maturity, of the financial instruments exposed to interest rate risk:

	< 1 YEAR \$'000	>1-<2 YEARS \$'000	>2-<3 YEARS \$'000	>3-<4 YEARS \$'000	>4-<5 YEARS \$'000	>5 YEARS \$'000	TOTAL \$000	WEIGHTED AVERAGE EFFECTIVE INTEREST RATE %
CONSOLIDATED								
Year ended 30 June 2006								
Financial assets								
Fixed rate								
Finance advances and loans	90,394	-	-	-	-	-	90,394	18.74
Loans to associates	-	20,083	-	-	-	-	20,083	7.00
Weighted average effective interest rate	18.74	7.00	-	-	-	-	16.61	
Floating rate								
Insurance deposits	559,055	-	-	-	-	-	559,055	5.69
Cash assets	57,246	-	-	-	-	-	57,246	4.10
Weighted average effective interest rate	5.54	-	-	-	-	-	5.54	

Notes to the financial statements

for the year ended 30 June 2006 - Wesfarmers Limited and its controlled entities

26 FINANCIAL INSTRUMENTS (continued)

	< 1 YEAR \$'000	>1-<2 YEARS \$'000	>2-<3 YEARS \$'000	>3-<4 YEARS \$'000	>4-<5 YEARS \$'000	>5 YEARS \$'000	TOTAL \$000	WEIGHTED AVERAGE EFFECTIVE INTEREST RATE %
Interest rate risk (continued)								
CONSOLIDATED								
Year ended 30 June 2006 (continued)								
Financial liabilities								
Fixed rate								
Commercial paper	50,000	-	30,000	-	-	-	80,000	5.84
Bank bills	50,000	155,000	50,000	-	-	-	255,000	5.85
Weighted average effective interest rate	5.46	6.11	5.83	-	-	-	5.85	
Floating rate								
Bank overdraft	6,931	-	-	-	-	-	6,931	6.70
Secured bank loan	5,706	-	-	-	-	-	5,706	9.81
Unsecured bank loan	92,587	-	-	-	-	-	92,587	7.56
Commercial paper	42,141	-	-	-	-	-	42,141	7.48
Bank bills	99,787	-	259,748	-	-	-	359,535	5.95
Corporate bonds	90,000	399,774	206,596	-	-	-	696,370	6.34
Weighted average effective interest rate	6.72	6.36	6.15	-	-	-	6.38	
Year ended 30 June 2005								
Financial assets								
Fixed rate								
Finance advances and loans	91,632	-	-	-	-	-	91,632	19.75
Loans to associates	-	-	21,433	-	-	-	21,433	7.00
Weighted average effective interest rate	19.75	-	7.00	-	-	-	17.33	
Floating rate								
Insurance deposits	534,598	-	-	-	-	-	534,598	5.67
Cash assets	56,815	-	-	-	-	-	56,815	3.40
Weighted average effective interest rate	5.45	-	-	-	-	-	5.45	
Financial liabilities								
Fixed rate								
Commercial paper	-	35,672	-	35,672	-	-	71,344	5.45
Bank bills	230,000	64,328	80,000	44,328	-	-	418,656	6.01
Weighted average effective interest rate	5.91	5.46	6.65	5.83	-	-	5.93	
Floating rate								
Bank overdraft	6,808	-	-	-	-	-	6,808	6.00
Secured bank loan	6,186	-	-	-	-	-	6,186	9.32
Unsecured bank loan	138,537	-	-	-	-	-	138,537	6.84
Commercial paper	22,965	-	-	-	-	-	22,965	7.06
Bank bills	101,755	-	230,377	-	-	-	332,132	5.90
Corporate bonds	100,000	90,000	399,659	210,000	-	-	799,659	6.08
Weighted average effective interest rate	6.44	6.04	6.01	6.08	-	-	6.15	

Notes to the financial statements

for the year ended 30 June 2006 - Wesfarmers Limited and its controlled entities

26 FINANCIAL INSTRUMENTS (continued)

	< 1 YEAR \$'000	>1-<2 YEARS \$'000	>2-<3 YEARS \$'000	>3-<4 YEARS \$'000	>4-<5 YEARS \$'000	>5 YEARS \$'000	TOTAL \$000	WEIGHTED AVERAGE EFFECTIVE INTEREST RATE %
Interest rate risk (continued)								
PARENT								
Year ended 30 June 2006 (continued)								
Financial assets								
Floating rate								
Cash assets	33,286	-	-	-	-	-	33,286	5.54
Weighted average effective interest rate	5.54	-	-	-	-	-	5.54	
Financial liabilities								
Fixed rate								
Commercial paper	50,000	-	30,000	-	-	-	80,000	5.84
Bank bills	50,000	155,000	50,000	-	-	-	255,000	5.85
Weighted average effective interest rate	5.46	6.11	5.84	-	-	-	5.85	
Floating rate								
Commercial paper	1,358	-	-	-	-	-	1,358	5.88
Bank bills	99,787	-	259,748	-	-	-	359,535	5.95
Corporate bonds	90,000	399,774	206,596	-	-	-	696,370	6.34
Weighted average effective interest rate	6.04	6.36	6.15	-	-	-	6.21	
Year ended 30 June 2005								
Financial assets								
Floating rate								
Cash assets	27,595	-	-	-	-	-	27,595	5.30
Weighted average effective interest rate	5.30	-	-	-	-	-	5.30	
Financial liabilities								
Fixed rate								
Commercial paper	-	35,672	-	35,672	-	-	71,344	5.45
Bank bills	230,000	64,328	80,000	44,328	-	-	418,656	6.01
Weighted average effective interest rate	5.91	5.46	6.65	5.83	-	-	5.93	
Floating rate								
Unsecured bank loan	27,000	-	-	-	-	-	27,000	5.75
Bank bills	101,755	-	230,377	-	-	-	332,132	5.90
Corporate bonds	100,000	90,000	399,659	210,000	-	-	799,659	6.08
Weighted average effective interest rate	6.00	6.04	6.01	6.08	-	-	6.02	

Interest on financial instruments classified as floating rate is repriced at intervals of less than one year. Interest on financial instruments classified as fixed rate is fixed until maturity of the instrument. 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. Effective interest rate recognises the impact of interest rate swaps.

Notes to the financial statements

for the year ended 30 June 2006 - Wesfarmers Limited and its controlled entities

26 FINANCIAL INSTRUMENTS (continued)

Hedging activities

Foreign exchange contracts

Cash flow hedges

At 30 June 2006, the Group held forward exchange contracts designated as hedges of future sales or purchases for which the Group either has firm commitments in place or has identified highly probable forecast transactions. The objective of using the foreign currency contracts is to hedge the exposure to the variability in AUD cash flows attributable to movements in the forward exchange rate in relation to the committed or forecast sales or purchases.

The terms of the forward currency contracts have been negotiated to match the terms of the underlying hedged items and, as such, the hedges are expected to be highly effective in offsetting changes in cash flows attributable to movements in the foreign exchange rates.

Details of the outstanding contracts as at 30 June 2006 are as follows:

- (i) Forward contracts to hedge expected future sales
USD1,066.8 million AUD/USD = 0.7009

The forward sales contracts relate mainly to USD coal and LPG sales and have maturities out to June 2011.

- (ii) Forward contracts to hedge expected future purchases

Contracts for the sale of AUD

USD81.5 million @ AUD/USD = 0.7434

GBP0.3 million @ AUD/GBP = 0.3994

EUR12.5 million @ AUD/EUR = 0.6086

JPY141.3 million @ AUD/JPY = 84.10

Contracts for the sale of NZD

USD1.1 million @ NZD/USD = 0.6248

The forward purchase contracts relate mainly to capital expenditure or the purchase of inventory and have maturities out to August 2007.

The parent company transacts all hedges of sales and purchases on a back-to-back basis with external contracts with banks being exactly offset by internal contracts with the relevant subsidiaries. The effect of this is that there is minimal foreign exchange exposure in the parent company. From a Group perspective the internal contracts are eliminated as part of the consolidation process, leaving only the external contracts in the name of Wesfarmers Limited.

Interest rate swap contracts

Cash flow hedges

As at 30 June 2006 the Group held Australian Dollar vanilla receive floating / pay fixed interest rate swaps with notional principal amounts totalling A\$335 million and an average fixed rate of 5.8%. In addition the Group held New Zealand vanilla receive floating / pay fixed interest rate swaps with notional principal amounts totalling NZ\$30 million and an average fixed rate of 7.3%.

These Australian Dollar swaps are designated as hedges against floating rate bank bill or commercial paper debt. The objective of using the swap contracts is to hedge the exposure to the variability in AUD cash flows attributable to movements in the three month BBSW rate (reference rate) in relation to the borrowings. The cash flows being hedged (the interest payments) are considered to be highly probable forecast transactions. The hedges are expected to be highly effective in offsetting the changes in these cash flows.

These New Zealand Dollar swaps are designated as hedges against floating rate term loan debt. The objective of using the swap contracts is to hedge the exposure to the variability in NZD cash flows attributable to movements in the benchmark BKBM rate (reference rate) in relation to the borrowings. The cash flows being hedged (the interest payments) are considered to be highly probable forecast transactions. The hedges are expected to be highly effective in offsetting the changes in these cash flows.

Fair value hedges

As at 30 June 2006 the Group held four vanilla receive fixed / pay floating interest rate swaps with notional principal amounts totalling \$360 million, an average fixed rate of 6.1% and an average floating rate of 6.3%.

These swaps are being used to hedge the exposure to changes in the fair value of its fixed rate corporate bonds (\$150 million @ 6.2% maturing August 2007 and \$210 million @ 6.0% maturing March 2009).

The objective of using the swap contracts is to hedge the exposure to changes in the fair value of the corporate bonds (a recognised liability) attributable to changes in fixed interest rates. The bonds and interest rate swaps have the same critical terms and the hedges are, therefore, expected to be highly effective in offsetting changes in the value of the bonds.

Notes to the financial statements

for the year ended 30 June 2006 - Wesfarmers Limited and its controlled entities

	CONSOLIDATED		PARENT	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
27 COMMITMENTS AND CONTINGENCIES				
Operating lease commitments - Group as lessee				
The Group has entered into commercial leases on buildings, motor vehicles and office equipment. The lease terms and implicit interest rates vary significantly. For the lease of buildings the lease terms range from one year to 25 years and have various renewal options, termination rights and residual liability clauses.				
Future minimum rental payable under non-cancellable operating leases as at 30 June are as follows:				
Within one year	183,404	183,849	1,991	1,708
Within one year but not more than five years	514,175	491,293	5,790	115
More than five years	262,537	262,009	-	-
	960,116	937,151	7,781	1,823
Other commitments				
Commitments arising from contracts for capital expenditure contracted for at balance date but not provided for:				
Due within one year	115,563	45,328	-	-
Commitments arising from agreements to invest in Gresham Private Equity Fund No. 2 contracted for at balance date but not provided for:				
Due within one year	30,000	30,000	-	-
Within one year but not more than five years	78,644	95,000	-	-

Contingencies

The Group is undergoing a review by the Australian Taxation Office of the implementation of the taxation consolidation rules

Since 2004 the Group has utilised approximately \$370 million of these losses against taxable gains, resulting in an increase in the restructure tax reserve of \$110 million and a reduction in tax payable of an equivalent amount. Based on independent expert legal advice management believes that the Group's treatment is correct and will prevail. Should this not be the case, an indeterminable amount of the capital losses previously recognised would be reversed resulting in the payment of income tax and a decrease in the restructure tax reserve. Such an amount could only be determined once the matter is resolved. The only impact on profit and loss of such an outcome would be the expensing of any penalties which may arise.

28 EVENTS AFTER THE BALANCE SHEET DATE

A dividend of 150 cents per share resulting in a dividend payment of \$567.1 million was declared on 15 August 2006 for payment on 4 September 2006.

On 5 September 2006 the Group announced an intention to make a conditional cash offer of \$4.50 per share for the entire issued capital of OAMPS Ltd ("OAMPS"), an insurance broking and underwriting company listed in Australia. If successful the offer will involve payment of approximately \$700 million to OAMPS shareholders. As at 11 September 2006 the Group had a relevant interest in 16.22 per cent of the ordinary shares in OAMPS.

Notes to the financial statements

for the year ended 30 June 2006 - Wesfarmers Limited and its controlled entities

29 INTEREST IN JOINTLY CONTROLLED ASSETS

The Group has the following interests in joint ventures in Australia:

JOINT VENTURE	PRINCIPAL ACTIVITY	INTEREST	
		2006 %	2005 %
Sodium Cyanide JV	Sodium cyanide manufacture	75	75
Bengalla JV	Coal mining	40	40
Kwinana Industrial Gases JV	Nitrogen manufacture	40	40

The share of the assets, liabilities, revenue and expenses of the jointly controlled assets, which are included in the consolidated financial statements, are as follows:

	CONSOLIDATED		PARENT	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
ASSETS				
Current assets				
Cash and cash equivalents	7,473	3,585	-	-
Trade and other receivables	3,421	8,965	-	-
Inventories	23,827	15,086	-	-
Other	2,455	2,032	-	-
Total current assets	37,176	29,668	-	-
Non-current assets				
Property, plant and equipment	228,680	229,331	-	-
Other non-current assets	15	15	-	-
Total non-current assets	228,695	229,346	-	-
Total assets	265,871	259,014	-	-
LIABILITIES				
Current liabilities				
Trade and other payables	14,277	9,797	-	-
Total current liabilities	14,277	9,797	-	-
Non-current liabilities				
Borrowings	1,170	1,471	-	-
Other non-current liabilities	13,583	9,964	-	-
Total non-current liabilities	14,753	11,435	-	-
Revenue	207,192	169,306	-	-
Costs of sales	(140,052)	(110,945)	-	-
Administrative expenses	(13,910)	(11,394)	-	-
Profit before income tax	53,230	46,967	-	-
Income tax expense	(15,969)	(14,090)	-	-
Net profit	37,261	32,877	-	-

There were no material capital commitments associated with the joint ventures. There were no impairment losses in the jointly controlled assets.

Notes to the financial statements

for the year ended 30 June 2006 - Wesfarmers Limited and its controlled entities

30 SUBSIDIARIES

	COUNTRY OF INCORPORATION	FUNCTIONAL CURRENCY	BENEFICIAL INTEREST	
			2006 %	2005 %
The consolidated financial statements include the financial statements of Wesfarmers Limited and the subsidiaries listed in the following table:				
Aben Pty Ltd	Australia	AUD	100	100
A.C.N. 003 921 873 Pty Limited	Australia	AUD	100	100
A.C.N. 082 931 486 Pty Ltd	Australia	AUD	100	100
A.C.N. 112 719 918 Pty Ltd	Australia	AUD	100	100
Australian Gold Reagents Pty Ltd	Australia	AUD	75	75
BBC Hardware Limited +	Australia	AUD	100	100
BBC Hardware Properties (NSW) Pty Ltd	Australia	AUD	100	100
BBC Hardware Properties (Vic) Pty Ltd	Australia	AUD	100	100
Bunnings (Northern Territory) Pty Ltd	Australia	AUD	100	100
Bunnings Group Limited (formerly Bunnings Pty Ltd) +	Australia	AUD	100	100
Bunnings Limited #	New Zealand	NZD	100	100
Bunnings Management Services Pty Ltd	Australia	AUD	100	100
Bunnings Manufacturing Pty Ltd	Australia	AUD	100	100
Bunnings Properties Pty Ltd	Australia	AUD	100	100
Bunnings Property Management Limited	Australia	AUD	100	100
Bunnings Pulp Mill Pty Ltd	Australia	AUD	100	100
C S Holdings Pty Limited +	Australia	AUD	100	100
Campbells Hardware & Timber Pty Limited	Australia	AUD	100	100
Chemical Holdings Kwinana Pty Ltd +	Australia	AUD	100	100
Co-operative Wholesale Services Ltd	Australia	AUD	100	100
Credit Management Pty Ltd	Australia	AUD	100	100
CSBP Ammonia Terminal Pty Ltd	Australia	AUD	100	100
CSBP Limited +	Australia	AUD	100	100
Cuming Smith and Company Limited +	Australia	AUD	100	100
Curragh Coal Sales Co Pty Ltd	Australia	AUD	100	100
Curragh Queensland Mining Pty Ltd	Australia	AUD	100	100
Dairy Properties Co-operative Limited	Australia	AUD	100	100
Eastfarmers Pty Ltd	Australia	AUD	100	100
Edward Lumley & Sons (Vic) Proprietary Limited	Australia	AUD	100	100
ELH Services Limited #	United Kingdom	GBP	100	100
ELOL Limited #	United Kingdom	GBP	100	100
Energy Generation Pty Ltd +	Australia	AUD	100	100
FIF Investments Pty Limited	Australia	AUD	100	100
FPT (Australia) Pty Limited	Australia	AUD	100	100
GPML Pty Ltd	Australia	AUD	100	100
HouseWorks Co Pty Ltd +	Australia	AUD	100	100
Howard Smith Limited +	Australia	AUD	100	100
Howard Smith Nominees Pty Limited	Australia	AUD	100	100
Ibert Pty Limited	Australia	AUD	100	100
J Blackwood & Son Limited +	Australia	AUD	100	100
J Blackwood & Son Steel & Metals Pty Ltd	Australia	AUD	100	100
Kleenheat Autogas Pty Ltd	Australia	AUD	100	100
Kleenheat Gas House Franchising Pty Ltd	Australia	AUD	100	100
Koukia Pty Limited	Australia	AUD	85	70
Kwinana Nitrogen Company Proprietary Limited	Australia	AUD	100	100
Loggia Pty Ltd +	Australia	AUD	100	100

Notes to the financial statements

for the year ended 30 June 2006 - Wesfarmers Limited and its controlled entities

30 SUBSIDIARIES (continued)

	COUNTRY OF INCORPORATION	FUNCTIONAL CURRENCY	BENEFICIAL INTEREST	
			2006 %	2005 %
Lumley Corporation Pty Limited	Australia	AUD	100	100
Lumley Finance Limited	Australia	AUD	100	100
Lumley Finance (NZ) Limited #	New Zealand	NZD	100	100
Lumley General Insurance Limited	Australia	AUD	100	100
Lumley General Insurance (NZ) Limited #	New Zealand	NZD	100	100
Lumley Insurance Group Limited	Australia	AUD	100	100
Lumley Investments (NZ) Limited #	New Zealand	NZD	100	100
Lumley Life (NZ) Limited #	New Zealand	NZD	100	100
Lumley Management Services Pty Limited	Australia	AUD	100	100
Lumley Risk Consultants Ltd	Australia	AUD	100	100
Lumley Securities Limited	Australia	AUD	100	100
Lumley Services (NZ) Limited #	New Zealand	NZD	100	100
Lumley Superannuation Pty Limited	Australia	AUD	100	100
Lumley Technology (India) Pte Limited #	India	AUD	100	100
Lumley Technology Limited	Australia	AUD	100	100
Lumley Technology (NZ) Limited # *	New Zealand	NZD	-	100
Mandate Management Consultants Pty Ltd	Australia	AUD	100	100
Millars (WA) Pty Ltd	Australia	AUD	100	100
Motion Industries Pty Ltd	Australia	AUD	100	100
NEGF Power Management Pty Ltd	Australia	AUD	100	100
NEGF Power Sales Pty Ltd	Australia	AUD	100	100
NZ Finance Holdings Pty Limited #	New Zealand	NZD	100	100
Packaging House Limited #	New Zealand	NZD	100	100
Pailou Pty Ltd +	Australia	AUD	100	100
Parks Insurance Pty Ltd @	Australia	AUD	100	-
Patrick Operations Pty Ltd	Australia	AUD	100	100
Petersen Bros Pty Ltd	Australia	AUD	100	100
Powertrain Pty Limited	Australia	AUD	100	100
Premier Power Sales Pty Ltd (formerly Wesfarmers Coal Superannuation Pty Ltd)	Australia	AUD	100	100
Protector Alsafe Pty Ltd (formerly Alsafe Safety Industries Pty Limited) +	Australia	AUD	100	100
R & N Palmer Pty Ltd	Australia	AUD	100	100
SBS Rural IAMA Pty Limited	Australia	AUD	100	100
Sellers (SA) Pty Ltd	Australia	AUD	100	100
Share Nominees Limited	Australia	AUD	100	100
Sotico Pty Ltd	Australia	AUD	100	100
StateWest Power Pty Ltd	Australia	AUD	100	100
The Builders Warehouse Group Pty Limited	Australia	AUD	100	100
The Franked Income Fund	Australia	AUD	100	100
Torque Underwriting Pty Ltd	Australia	AUD	100	100
Ucone Pty Ltd +	Australia	AUD	100	100
Valley Investments Pty Ltd +	Australia	AUD	100	100
Wesfarmers Agribusiness Limited +	Australia	AUD	100	100
Wesfarmers Bangladesh Gas Pty Ltd	Australia	AUD	100	100
Wesfarmers Bengalla Limited +	Australia	AUD	100	100
Wesfarmers Bunnings Limited +	Australia	AUD	100	100
Wesfarmers Char Pty Ltd (formerly Wesfarmers Coal (Indonesia) Pty Ltd)	Australia	AUD	100	100

Notes to the financial statements

for the year ended 30 June 2006 - Wesfarmers Limited and its controlled entities

30 SUBSIDIARIES (continued)

	COUNTRY OF INCORPORATION	FUNCTIONAL CURRENCY	BENEFICIAL INTEREST	
			2006 %	2005 %
Wesfarmers Curragh Pty Ltd +	Australia	AUD	100	100
Wesfarmers Energy Limited +	Australia	AUD	100	100
Wesfarmers Energy (Gas Sales) Limited (formerly Bunnings Chip Mill Pty Ltd) +	Australia	AUD	100	100
Wesfarmers Energy (Industrial Gas) Pty Ltd	Australia	AUD	100	100
Wesfarmers Federation Insurance Limited	Australia	AUD	100	100
Wesfarmers Fertilizers Pty Ltd +	Australia	AUD	100	100
Wesfarmers Finance Pty Ltd	Australia	AUD	100	100
Wesfarmers Gas Limited +	Australia	AUD	100	100
Wesfarmers Holdings Pty Ltd	Australia	AUD	100	100
Wesfarmers Industrial & Safety Holdings NZ Limited #	New Zealand	NZD	100	100
Wesfarmers Industrial & Safety NZ Limited #	New Zealand	NZD	100	100
Wesfarmers Industrial & Safety Pty Ltd (formerly Danlan Pty Limited)	Australia	AUD	100	100
Wesfarmers Insurance Investments Pty Ltd +	Australia	AUD	100	100
Wesfarmers Insurance Pty Ltd	Australia	AUD	100	100
Wesfarmers Investments Pty Ltd	Australia	AUD	100	100
Wesfarmers Kleenheat Elpiji Limited <	Bangladesh	BDT	55	55
Wesfarmers Kleenheat Gas Pty Ltd +	Australia	AUD	100	100
Wesfarmers LNG Pty Ltd	Australia	AUD	100	100
Wesfarmers LPG Pty Ltd +	Australia	AUD	100	100
Wesfarmers Premier Coal Limited +	Australia	AUD	100	100
Wesfarmers Private Equity Pty Ltd	Australia	AUD	100	100
Wesfarmers Provident Fund Pty Ltd	Australia	AUD	100	100
Wesfarmers Queensland Coal Pty Ltd	Australia	AUD	100	100
Wesfarmers Railroad Holdings Pty Ltd	Australia	AUD	100	100
Wesfarmers Resources Pty Ltd +	Australia	AUD	100	100
Wesfarmers Retail Pty Ltd +	Australia	AUD	100	100
Wesfarmers Risk Management Limited #	Bermuda	AUD	100	100
Wesfarmers Securities Management Pty Ltd	Australia	AUD	100	100
Wesfarmers Sugar Company Pty Ltd	Australia	AUD	100	100
Wesfarmers Superannuation Pty Ltd	Australia	AUD	100	100
Wesfarmers Transport Indonesia Pty Ltd	Australia	AUD	100	100
Wesfarmers Transport Limited +	Australia	AUD	100	100
Weskem Pty Ltd	Australia	AUD	100	100
West Africa Power Company Pty Ltd	Australia	AUD	100	100
Westralian Farmers Co-operative Limited	Australia	AUD	100	100
Westralian Farmers Superphosphates Limited +	Australia	AUD	100	100
WFCL Investments Pty Ltd	Australia	AUD	100	100
Wyper Brothers Pty Limited	Australia	AUD	100	100
XCC (Retail) Pty Ltd	Australia	AUD	100	100

@ Entity acquired during the year.

* Entity deregistered or liquidated during the year.

Audited by firms of Ernst & Young International.

< Audited by other firms of accountants.

+ An approved deed of cross guarantee in accordance with the ASIC Class Order 98/1418 (as amended) has been entered into by Wesfarmers Limited and these entities. Refer note 31 for further details.

Wesfarmers Limited, incorporated in Australia, is the ultimate Australian parent entity and the ultimate parent of the Group.

Notes to the financial statements

for the year ended 30 June 2006 - Wesfarmers Limited and its controlled entities

31 DEEDS OF CROSS GUARANTEE

Pursuant to Class Order 98/1418, the subsidiaries identified with a "+" in note 30 (with the exception of C S Holdings Pty Limited, Loggia Pty Ltd and Pailou Pty Ltd, which are small proprietary companies) are relieved from the requirements of the Corporations Act 2001 relating to the preparation, audit and lodgement of their financial reports.

As a condition of the Class Order, the subsidiaries identified with a "+" in note 30 and Wesfarmers Limited ("Closed Group") entered into a Deed of Cross Guarantee on 27 June 2006 ("New Deed"). The effect of the New Deed is that each of the parties to the New Deed has guaranteed to pay any deficiency in the event of the winding up of any of the entities in the Closed Group.

Each of the companies in the Closed Group, together with the following small proprietary companies, were previously parties to a Deed of Cross Guarantee dated 23 June 1992 ("Previous Deed"):

Bunnings Management Services Pty Ltd
 Bunnings Properties Pty Ltd
 Credit Management Pty Ltd
 Eastfarmers Pty Ltd
 Millars (WA) Pty Ltd
 Premier Power Sales Pty Ltd
 R & N Palmer Pty Ltd
 Sotico Pty Ltd
 Wesfarmers Char Pty Ltd
 Wesfarmers Provident Fund Pty Ltd
 Wesfarmers Superannuation Pty Ltd

On 29 June 2006 Revocation Deeds in respect of the Previous Deed were lodged with the Australian Securities and Investments Commission. All of the companies that were parties to the Previous Deed will be released from their obligations under the Previous Deed provided none of the parties to the Previous Deed is wound up and no winding up of any of those parties is commenced within six months after the date of lodgement of the Revocation Deeds.

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

	NEW DEED 2006 \$000	PREVIOUS DEED 2005 \$000
Consolidated income statement		
Profit from continuing operations before income tax	1,346,637	983,848
Income tax expense	(269,710)	(214,787)
Net profit for year	1,076,927	769,061
Retained earnings at beginning of year	710,592	489,753
Adjustment for companies transferred into/(out of) Closed Group	(59,411)	(1,613)
Total available for appropriation	1,728,108	1,257,201
Dividends provided for or paid	(725,842)	(546,609)
Retained earnings at end of year	<u>1,002,266</u>	<u>710,592</u>

Notes to the financial statements

for the year ended 30 June 2006 - Wesfarmers Limited and its controlled entities

31 DEEDS OF CROSS GUARANTEE (continued)

	NEW DEED 2006 \$000	PREVIOUS DEED 2005 \$000
Consolidated balance sheet		
ASSETS		
Current assets		
Cash and cash equivalents	83,574	56,231
Trade and other receivables	612,517	790,112
Inventories	1,035,708	1,029,858
Derivatives	43,776	-
Other insurance assets	-	-
Total current assets	1,775,575	1,876,201
Non-current assets		
Receivables	9,996	662
Available-for-sale investments	2,990,084	3,003,949
Other financial assets	131,828	2,532
Investment in associates	109,464	107,846
Deferred tax assets	87,697	97,012
Property, plant and equipment	2,186,167	1,804,653
Intangible assets and goodwill	1,302,535	1,284,523
Derivatives	31,655	-
Total non-current assets	6,849,426	6,301,177
Total assets	8,625,001	8,177,378
LIABILITIES		
Current liabilities		
Trade and other payables	606,920	3,053,177
Interest-bearing loans and borrowings	3,026,682	587,182
Income tax payable	235,864	101,378
Provisions	120,296	153,057
Derivatives	3,288	-
Insurance liabilities	19,996	-
Other	124,614	98,156
Total current liabilities	4,137,660	3,992,950
Non-current liabilities		
Payables	3,323	9,623
Interest-bearing loans and borrowings	1,055,419	1,221,722
Deferred tax liabilities	179,462	138,497
Provisions	253,352	220,985
Derivatives	1,650	-
Insurance liabilities	-	-
Other	57,027	61,858
Total non-current liabilities	1,550,233	1,652,685
Total liabilities	5,687,893	5,645,635
Net assets	2,937,108	2,531,743
EQUITY		
Contributed equity	1,901,522	1,901,164
Employee reserved shares	(152,002)	(204,512)
Retained earnings	1,002,266	710,592
Reserves	185,322	124,499
Total equity	2,937,108	2,531,743

Notes to the financial statements

for the year ended 30 June 2006 - Wesfarmers Limited and its controlled entities

	CONSOLIDATED		PARENT	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
32 RELATED PARTY TRANSACTIONS				
Subsidiaries				
Dividends received	-	-	1,007,749	630,896
Insurance premiums received	-	-	13,068	11,369
Interest received	-	-	8,825	9,999
Operating lease rent received	-	-	581	504
Purchases of coal	-	-	93,882	82,618
Bad and doubtful debts	-	-	-	10,541
Loans receivable	-	-	1,344,316	2,188,267
Provisions for doubtful debts	-	-	(9,081)	(10,541)
Loans payable	-	-	10,980	2,472,081
Current tax payable	-	-	322,604	289,715
Foreign exchange hedge receivables	-	-	5,142	-
Foreign exchange hedge payables	-	-	73,669	-
Associates				
Management fees received	8,922	6,356	2,551	1,709
Profit on sale of rental properties	1,552	3,568	-	-
Operating lease rent paid	57,736	51,346	241	37
Investment advisory fees paid	4,069	298	4,069	298
Loans receivable	20,083	21,433	-	-

Subsidiaries

Transactions by the parent entity within the wholly-owned Group include investments in subsidiaries, and loans made and received with subsidiaries, which are generally on interest-free terms and repayable on demand. Some loans, however, carry a commercial rate of interest.

In addition the parent entity purchases coal from a subsidiary, rents office premises to another subsidiary, and incurs and recovers costs and charges in relation to various minor expenditure in the normal course of business and on normal terms and conditions. The parent entity also enters into back-to-back hedging contracts with subsidiaries and associates.

Associates

Management fees have been paid by associated entities, Air Liquide WA Pty Ltd, Australian Railroad Group Pty Ltd and Bunnings Warehouse Property Trust, to the consolidated entity on normal commercial terms and conditions for staff and other services provided to the associates.

Rent for retail warehouses has been paid by the consolidated entity to an associated entity, the Bunnings Warehouse Property Trust. During the year the Trust acquired rental properties from the consolidated entity and gains were made on disposal, a portion of which was eliminated in the consolidated accounts under equity accounting.

Investment advisory services have been provided by Gresham Partners Group Limited to the consolidated entity.

A loan has been made to an associated entity, Queensland Nitrates Pty Ltd. The loan is subordinated to a syndicate of project financing banks and is neither repayable nor interest-bearing until a number of financial covenants have been achieved.

Other minor loans have also been made to associates.

Notes to the financial statements

for the year ended 30 June 2006 - Wesfarmers Limited and its controlled entities

	CONSOLIDATED		PARENT	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
33 AUDITOR'S REMUNERATION				
The auditor of Wesfarmers Limited is Ernst & Young.				
<i>Amounts received or due and receivable by Ernst & Young (Australia) for:</i>				
- an audit or review of the financial report of the entity and any other entity in the consolidated Group	2,303	1,876	667	534
- other services in relation to the entity and any other entity in the consolidated Group				
- tax compliance	399	721	387	630
- application for government tax concessions	154	203	111	167
- corporate finance advice	1,445	-	1,445	-
- assurance related	213	59	7	-
- special audits required by regulators	60	139	-	-
- other	65	114	65	141
	4,639	3,112	2,682	1,472
<i>Amounts received or due and receivable by related practices of Ernst & Young (Australia) for:</i>				
- an audit or review of the financial report of subsidiaries	325	261	-	-
- other services in relation to the entity and any other entity in the consolidated Group				
- tax compliance	54	163	-	54
- other	-	12	-	16
	379	436	-	70
<i>Amounts received or due and receivable by non Ernst & Young audit firms for:</i>				
- an audit or review of the financial report of subsidiaries	2	13	-	-
	5,020	3,561	2,682	1,542

Notes to the financial statements

for the year ended 30 June 2006 - Wesfarmers Limited and its controlled entities

34 SHARE BASED PAYMENT PLANS

The Group operates three share based payment plans.

Wesfarmers Employee Share Plan ("WESP")

The WESP was approved by shareholders in April 1985, with the last issue under the Plan being made in December 2004. Under the Plan all permanent employees over 18 years of age continuously employed by the Group for a minimum period of one year were invited annually to apply for a specified number of fully paid ordinary shares in the Company, funded by a limited-recourse interest-free loan from the Group.

Under the Plan shares were allotted at the weighted average price of Wesfarmers Limited shares posted on the Australian Stock Exchange one week up to and including the day of allotment. The shares are not subject to any specific vesting conditions.

The employee's obligation for repayment of the loans is limited to the dividends declared and capital returns by the Company and in the event the employee ceases employment, the market price achieved on the sale of the shares held as security by the Company for the loans.

The Plan is accounted for as an in-substance option plan, with the contractual life of each option equivalent to the estimated loan life and no maximum term. Repayment of the loan constitutes exercise of the option, with the exercise price being the remaining loan balance per share.

This treatment requires the balance of the employee share loan plan receivable asset to be derecognised and recognised as employee reserved shares against contributed equity, and diluted earnings per share has been adjusted accordingly. No adjustment was made to retained earnings or to recognise a deferred compensation expense, as a result of the exemption available in AASB 1 for option issues which fully vest prior to 1 January 2005. There was no impact on profit and loss for the current or prior financial year arising from this plan.

The following table sets out the number and weighted average exercise prices ("WAEP") of and movements in in-substance share options during the year:

	2006		2005	
	NUMBER THOUSANDS	WAEP	NUMBER THOUSANDS	WAEP
Outstanding and exercisable at beginning of year	10,494	\$20.52	14,325	\$19.65
Granted during year	-	-	1,688	\$38.17
Exercised during year	(2,270)	\$16.08	(5,519)	\$17.76
Outstanding and exercisable at the end of year	8,224	\$19.39	10,494	\$20.52
Weighted average share price for Wesfarmers Limited		\$37.12		\$35.93
The average exercise prices (after reductions for dividends paid, returns of capital and voluntary payments) for in-substance options issued during the following years ended 30 June are:				
1997		\$0.58		\$1.12
1998		\$0.88		\$1.69
1999		\$1.20		\$3.00
2000		\$7.09		\$8.98
2001		\$20.55		\$22.43
2002		\$18.63		\$20.59
2003		\$21.23		\$23.27
2004		\$34.34		\$36.67

Notes to the financial statements

for the year ended 30 June 2006 - Wesfarmers Limited and its controlled entities

34 SHARE BASED PAYMENT PLANS (continued)

Wesfarmers Long Term Incentive Plan ("WLTIP")

The WLTIP was introduced in September 2005 with the first awards being made under the plan in the current financial year. Under the plan senior employees are invited to receive fully paid ordinary shares in the company subject to the achievement of a performance hurdle based on the Group achieving a benchmark return on equity performance against a comparative group of companies. Eligibility is dependant upon an in-service period and being a permanent employee.

Shares may either be acquired on-market by the Group or issued by the parent. During the current financial year shares were acquired on-market, with the cost being expensed over the vesting period from the plan commencement date in September 2005 to the allocation date of 1 December 2005. The fair value of the services received from employees and of the equity instruments granted was determined by the total cost to the Group of the shares acquired on-market.

The impact on the profit and loss is set out in note 4.

	CONSOLIDATED		PARENT	
	2006	2005	2006	2005
Shares acquired under the plan	278,540	-	93,503	-
Cost per share	\$35.96	-	\$35.96	-

Wesfarmers Employee Share Ownership Plan ("WESOP")

The WESOP was also introduced in September 2005 with the first awards being made under the plan in the current financial year. Under the plan all employees other than those participating in the WLTIP are invited to receive \$1,000 of fully paid ordinary shares in the Company subject to the achievement of a performance hurdle based on the Group achieving a benchmark return on equity performance against a comparative group of companies. Eligibility is dependant upon an in-service period and being a permanent employee.

The Plan qualifies as a non-discriminatory employee share scheme complying with the requirements of Division 13A of the Income Tax Assessment Act 1936 (as amended) for Australian resident employees.

Shares may either be acquired on-market by the Group or issued by the parent. During the current financial year shares were acquired on-market, with the cost being expensed over the vesting period from the plan commencement date in September 2005 to the allocation date of 1 December 2005. The fair value of the services received from employees and of the equity instruments granted was determined by the total cost to the Group of the shares acquired on-market.

The impact on the profit and loss is set out in note 4.

	CONSOLIDATED		PARENT	
	2006	2005	2006	2005
Shares acquired under the Plan	467,650	-	1,485	-
Cost per share	\$35.96	-	\$35.96	-

Notes to the financial statements

for the year ended 30 June 2006 - Wesfarmers Limited and its controlled entities

35 PENSION PLAN

The Group operates a defined benefit pension plan as a component part of the Wesfarmers Superannuation Fund, which is primarily an accumulation plan.

The Fund has accumulation members and pensioners. Pensioners are former members of the defined benefit plan who chose not to convert to accumulation members when the defined benefit component was closed to new members from 1 July 2002. All new members receive accumulation only benefits. The Group has a legal liability to make up a deficit in the plan but no legal right to benefit from any surplus in the plan.

Actuarial gains and losses are recognised immediately in profit and loss in the year in which they occur.

	CONSOLIDATED		PARENT	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
Changes in the present value of the defined benefit obligation are as follows:				
Opening defined benefit obligation	42,395	34,214	42,395	34,214
Interest cost	2,051	1,950	2,051	1,950
Current service cost	50	4	50	4
Benefits paid	(2,400)	(2,370)	(2,400)	(2,370)
Actuarial (gains)/losses	(4,552)	8,597	(4,552)	8,597
Taxes paid on contributions	(984)	-	(984)	-
Closing defined benefit obligation	36,560	42,395	36,560	42,395
Changes in the fair value of the defined benefits portion of plan assets are as follows:				
Opening fair value of plan assets	35,840	34,234	35,840	34,234
Expected return	1,770	1,928	1,770	1,928
Contributions by employer	6,556	-	6,556	-
Taxes paid on contributions	(984)	-	(984)	-
Benefits paid	(2,400)	(2,370)	(2,400)	(2,370)
Actuarial gains	1,040	2,048	1,040	2,048
Closing fair value of plan assets	41,822	35,840	41,822	35,840
The fair value of fund assets do not include amounts relating to the Group's own financial instruments nor any property or other assets used by the Group.				
Net benefit surplus/expense recognised in profit and loss:				
Current service cost	50	4	50	4
Interest cost	2,051	1,950	2,051	1,950
Expected return on plan assets	(1,770)	(1,928)	(1,770)	(1,928)
Net actuarial (gains)/losses	(5,592)	6,549	(5,592)	6,549
Defined benefit plan (surplus)/expense	(5,261)	6,575	(5,261)	6,575
Benefit asset/liability recognised in the balance sheets:				
Defined benefit obligation	(36,560)	(42,395)	(36,560)	(42,395)
Fair value of plan assets	41,822	35,840	41,822	35,840
Net benefit asset/(liability)	5,262	(6,555)	5,262	(6,555)
The principal actuarial assumptions used in determining pension benefit obligations are:				
Discount rate	5.82%	5.10%	5.82%	5.10%
Expected rate of return on fund assets	N/A	5.11%	N/A	5.11%
Expected pension increase rate	2.50%	2.50%	2.50%	2.50%

Notes to the financial statements

for the year ended 30 June 2006 - Wesfarmers Limited and its controlled entities

36 DIRECTOR AND EXECUTIVE DISCLOSURES

Details of non-executive directors and Key Management Personnel during the years ended 30 June 2005 and 2006

Non-executive directors

C B Carter
 P A Cross
 T R Eastwood (Chairman)
 R L Every - appointed 14 February 2006
 T J Flügge - resigned 3 July 2006
 L A Giglia
 J P Graham
 R D Lester
 C Macek
 D C White

Executive directors

M A Chaney - retired 12 July 2005
 R J B Goyder
 D A Robb - resigned 8 September 2006
 G T Tilbrook

Executives

T M Bowen, Managing Director, Industrial and Safety Division - appointed 24 October 2005
 R J Buckley, Managing Director, Insurance Division
 P J C Davis, Managing Director, Home Improvement Division - until 10 August 2004
 R M Denby, Managing Director, Industrial and Safety Division - resigned 30 November 2005
 J C Gillam, Managing Director, Home Improvement Division - appointed 10 August 2004
 K D Gordon, Managing Director, Chemicals and Fertilisers Division - appointed 10 August 2004

Compensation of non-executive directors and Key Management Personnel

The Company has applied the exemption in relation to compensation policy disclosures under Corporations Regulations 2001 (as amended) which exempt listed companies from providing compensation disclosures in relation to their Key Management Personnel in their annual financial reports normally required by Accounting Standard AASB 124 Related Party Disclosures. These remuneration disclosures are provided in sections 1-7 (excluding Table 1(b)) of the Remuneration Report on pages 131 to 142 of this annual report designated as audited and forming part of the Directors' Report.

Notes to the financial statements

for the year ended 30 June 2006 - Wesfarmers Limited and its controlled entities

	CONSOLIDATED		PARENT	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
36 DIRECTOR AND EXECUTIVE DISCLOSURES (continued)				
Compensation of non-executive directors and Key Management Personnel (continued)				
Short-term	8,968	12,844	8,894	12,784
Post employment	2,630	2,399	2,630	2,399
Other long-term	-	-	-	-
Termination benefits	785	-	785	-
Share-based payment	2,043	2,190	2,043	2,190
	14,426	17,433	14,352	17,373

Holdings of equity instruments in Wesfarmers Limited of non-executive directors and Key Management Personnel and their related parties

	BALANCE AT BEGINNING OF YEAR	GRANTED AS REMUNERATION	ON EXERCISE OF IN-SUBSTANCE OPTIONS	NET CHANGE OTHER	BALANCE AT END OF YEAR
Shares - 30 June 2006					
Non-executive directors					
C B Carter	4,000	-	-	-	4,000
P A Cross	2,000	-	-	1,500	3,500
T R Eastwood (Chairman)	878,694	-	-	-	878,694
R L Every	2,000	-	-	-	2,000
T J Flügge	4,417	-	-	-	4,417
L A Giglia	16,120	-	-	-	16,120
J P Graham	975,756	-	-	-	975,756
R D Lester	44,614	-	-	-	44,614
C Macek	5,000	-	-	250	5,250
D C White	40,029	-	-	5,800	45,829
Executive directors					
M A Chaney +	245,663	-	200,000	(445,663)	-
R J B Goyder	106,048	13,208	-	-	119,256
D A Robb	113,940	10,316	-	-	124,256
G T Tilbrook	142,908	10,316	-	-	153,224
Executives					
T M Bowen	-	-	-	-	-
R J Buckley	53,573	7,461	-	-	61,034
R M Denby +	300	-	30,068	(30,368)	-
J C Gillam	48,131	9,285	-	-	57,416
K D Gordon	18,271	6,231	-	-	24,502
	2,701,464	56,817	230,068	(468,481)	2,519,868

Notes to the financial statements

for the year ended 30 June 2006 - Wesfarmers Limited and its controlled entities

36 DIRECTOR AND EXECUTIVE DISCLOSURES (continued)

Holdings of equity instruments in Wesfarmers Limited of non-executive directors and Key Management Personnel (continued)

	BALANCE AT BEGINNING OF YEAR	GRANTED AS REMUNERATION	ON EXERCISE OF IN-SUBSTANCE OPTIONS	NET CHANGE OTHER	BALANCE AT END OF YEAR
Shares - 30 June 2005					
<i>Non-executive directors</i>					
C B Carter	4,000	-	-	-	4,000
P A Cross	2,000	-	-	-	2,000
T R Eastwood (Chairman)	878,694	-	-	-	878,694
T J Flügge	4,417	-	-	-	4,417
L A Giglia	16,120	-	-	-	16,120
J P Graham	982,504	-	-	(6,748)	975,756
R D Lester	44,614	-	-	-	44,614
C Macek	5,000	-	-	-	5,000
D C White	39,184	-	-	845	40,029
<i>Executive directors</i>					
M A Chaney	245,663	-	-	-	245,663
R J B Goyder	101,871	4,177	-	-	106,048
D A Robb	110,123	3,817	-	-	113,940
G T Tilbrook	138,866	4,042	-	-	142,908
<i>Executives</i>					
R J Buckley	31,216	3,143	19,714	(500)	53,573
P J C Davis +	64,010	3,044	-	(67,054)	-
R M Denby	300	-	-	-	300
J C Gillam	44,754	3,377	-	-	48,131
K D Gordon	-	-	18,271	-	18,271
	2,713,336	21,600	37,985	(73,457)	2,699,464
<i>In-substance options under WESP - 30 June 2006</i>					
M A Chaney + (average exercise price \$12.89 per share)	200,000	-	(200,000)	-	-
R M Denby + (average exercise price \$30.30 per share)	30,068	-	(30,068)	-	-
	230,068	-	(230,068)	-	-
<i>In-substance options under WESP - 30 June 2005</i>					
M A Chaney	200,000	-	-	-	200,000
R J Buckley (average exercise price \$13.57 per share)	19,714	-	(19,714)	-	-
R M Denby	30,068	-	-	-	30,068
K D Gordon (average exercise price \$15.63 per share)	18,271	-	(18,271)	-	-
	268,053	-	(37,985)	-	230,068

+ Ceased to be a Key Management Person during the year

All in-substance options were fully vested at 1 January 2005 and hence do not affect compensation in this or future reporting periods. All equity transactions with Key Management Personnel other than those arising from the exercise of employee options have been entered into under terms and conditions no more favourable than those the Group would have adopted if dealing at arm's length.

Notes to the financial statements

for the year ended 30 June 2006 - Wesfarmers Limited and its controlled entities

36 DIRECTOR AND EXECUTIVE DISCLOSURES (continued)

Refer to note 32 in relation to transactions with Gresham Partners Group Limited, of which J P Graham is a director.

From time to time, directors of the company or its controlled entities, or their director-related entities, may purchase goods or services from the consolidated entity. These purchases are on the same terms and conditions as those entered into by other consolidated entity employees or customers and are trivial or domestic in nature.

37 TRANSITION TO AIFRS

For all periods up to and including the year ended 30 June 2005, the Group prepared its financial statements in accordance with Australian generally accepted accounting practice (AGAAP). These financial statements for the year ended 30 June 2006 are the first the Group is required to prepare in accordance with Australian equivalents to International Financial Reporting 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 July 2004, the Group's date of transition to AIFRS, and made those 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 July 2004 and its previously published AGAAP financial statements for the year ended 30 June 2005. For the consolidated entity, the note also shows the impact of a change in accounting policy detailed in note 2(a).

Exemptions applied

AASB 1 allows first-time adopters certain exemptions from the general requirement to apply AIFRS retrospectively.

The Group has taken the following exemptions:

- comparative information for insurance contracts and financial instruments is prepared in accordance with AGAAP and the Company and Group have adopted revised AASB 1023 General Insurance Contracts, AASB 132 Financial Instruments: Disclosure and Presentation and AASB 139 Financial Instruments: Recognition and Measurement from 1 July 2005;
- AASB 3 Business Combinations has not been applied to acquisitions of subsidiaries or of interests in associates and joint ventures that occurred before 1 July 2004;
- AASB 2 Share-based Payment has not been applied to any equity instruments that vested before 1 January 2005;
- calculation of mine and plant rehabilitation provisions and assets under UIG 1 Changes in Existing Decommissioning, Restoration and Similar Liabilities has been calculated in accordance with AASB 1; and
- designation of financial instruments as fair value through profit and loss or as available for sale has been made at the date of transition to AIFRS under AASB 1.

There are no material differences between the cash flow statement presented under AIFRS and the cash flow statement presented under previous AGAAP.

Notes to the financial statements

for the year ended 30 June 2006 - Wesfarmers Limited and its controlled entities

37 TRANSITION TO AIFRS (continued)

Income statement reconciliation for the year ended 30 June 2005

	Note	CONSOLIDATED			
		AGAAP \$000	AIFRS IMPACT \$000	CHANGE IN ACCOUNTING POLICY \$000	AIFRS \$000
Revenue					
Sale of goods		6,858,310	54,067	-	6,912,377
Rendering of services		1,168,010	20,725	-	1,188,735
Interest		52,776	-	-	52,776
Dividends		850	-	-	850
Other		73,989	(70,096)	-	3,893
		8,153,935	4,696	-	8,158,631
Cost of sales		(4,523,007)	8,012	(2,289)	(4,517,284)
Direct service expenses		(798,872)	532	-	(798,340)
Gross profit		2,832,056	13,240	(2,289)	2,843,007
Other income		35,817	(27,095)	-	8,722
Distribution expenses		(189,471)	-	-	(189,471)
Sales and marketing expenses		(1,222,676)	-	-	(1,222,676)
Administrative expenses		(343,229)	4,206	-	(339,023)
Other expenses		(79,366)	(3,911)	-	(83,277)
Amortisation of goodwill		(90,430)	90,430	-	-
Finance costs		(102,837)	(1,339)	-	(104,176)
Share of profits and losses of associates		40,440	13,088	-	53,528
Profit before income tax		880,304	88,619	(2,289)	966,634
Income tax expense		(261,430)	(4,729)	1,362	(264,797)
Profit after tax from continuing operations		618,874	83,890	(927)	701,837
Loss (profit) attributed to minority interest		(574)	574	-	-
Profit attributable to members of the parent		618,300	84,464	(927)	701,837
Breakdown of impact on profit after tax					
Impairment of assets including goodwill	b		489		
Write-back of goodwill amortisation	c		90,430		
Tax effect of untaxed undistributed earnings of associates	d		(8,929)		
Tax effect of fair value adjustments on acquisition	d		436		
Recognition of rehabilitation provisions	e		(1,021)		
Derecognition of pre-opening store costs	f		(2,669)		
Recognition of pension liability	g		(4,589)		
Inventory valuation adjustment	h		98		
Associate's revaluation of investment properties	l		11,267		
Other minor adjustments	m		(1,048)		
			84,464		

Notes to the financial statements

for the year ended 30 June 2006 - Wesfarmers Limited and its controlled entities

37 TRANSITION TO AIFRS (continued)

Balance sheet reflecting reconciliation of adjustments to AIFRS as at 1 July 2004

	Note	CONSOLIDATED			AIFRS \$000
		AGAAP \$000	AIFRS IMPACT \$000	CHANGE IN ACCOUNTING POLICY \$000	
ASSETS					
Current assets					
Cash and cash equivalents		103,374	-	-	103,374
Trade and other receivables	a	1,306,186	(34,930)	-	1,271,256
Inventories	h	1,260,096	(16,592)	(79,606)	1,163,898
Other insurance assets		721,028	-	-	721,028
Total current assets		3,390,684	(51,522)	(79,606)	3,259,556
Non-current assets					
Receivables	a	330,843	(260,468)	-	70,375
Available-for-sale investments		10,602	-	-	10,602
Investment in associates	b	401,375	(1,104)	-	400,271
Deferred tax assets	e, m	65,118	35,128	-	100,246
Property, plant and equipment	b, e, f, m	1,600,052	12,538	-	1,612,590
Goodwill	b, m	1,472,724	366	-	1,473,090
Other		2	-	-	2
Total non-current assets		3,880,716	(213,540)	-	3,667,176
Total assets		7,271,400	(265,062)	(79,606)	6,926,732
LIABILITIES					
Current liabilities					
Trade and other payables	m	840,681	(4,825)	-	835,856
Interest-bearing loans and borrowings		309,822	-	-	309,822
Income tax payable		121,838	-	-	121,838
Provisions		154,894	-	-	154,894
Insurance liabilities		806,417	-	-	806,417
Total current liabilities		2,233,652	(4,825)	-	2,228,827
Non-current liabilities					
Payables		17,612	-	-	17,612
Interest-bearing loans and borrowings	m	1,302,096	3,382	-	1,305,478
Deferred tax liabilities	d, e, m	109,912	47,136	(21,081)	135,967
Provisions	e	111,058	111,735	-	222,793
Insurance liabilities		166,545	-	-	166,545
Total non-current liabilities		1,707,223	162,253	(21,081)	1,848,395
Total liabilities		3,940,875	157,428	(21,081)	4,077,222
Net assets		3,330,525	(422,490)	(58,525)	2,849,510
EQUITY					
Equity attributable to equity holders of the parent					
Contributed equity	see below	2,345,633	(130,861)	-	2,214,772
Employee reserved shares	a	-	(281,428)	-	(281,428)
Retained earnings	see below	931,779	(112,909)	(58,525)	760,345
Reserves	see below	55,200	100,668	-	155,868
Minority interests	m	(2,087)	2,040	-	(47)
Total equity		3,330,525	(422,490)	(58,525)	2,849,510

Notes to the financial statements

for the year ended 30 June 2006 - Wesfarmers Limited and its controlled entities

37 TRANSITION TO AIFRS (continued)

Balance sheet reflecting reconciliation of adjustments to AIFRS as at 30 June 2005

	Note	CONSOLIDATED			AIFRS \$000
		AGAAP \$000	AIFRS IMPACT \$000	CHANGE IN ACCOUNTING POLICY \$000	
ASSETS					
Current assets					
Cash and cash equivalents		83,846	-	-	83,846
Trade and other receivables	a	1,234,508	(29,528)	-	1,204,980
Inventories	h	1,248,001	(16,459)	(81,895)	1,149,647
Other insurance assets		633,894	-	-	633,894
Total current assets		3,200,249	(45,987)	(81,895)	3,072,367
Non-current assets					
Receivables	a	270,299	(199,950)	-	70,349
Available-for-sale investments		11,092	-	-	11,092
Investment in associates	b	436,935	2,529	-	439,464
Deferred tax assets	e, g, m	57,867	47,135	-	105,002
Property, plant and equipment	b, e, f, m	1,961,395	26,834	-	1,988,229
Goodwill	b, c, m	1,376,511	89,755	-	1,466,266
Total non-current assets		4,114,099	(33,697)	-	4,080,402
TOTAL ASSETS		7,314,348	(79,684)	(81,895)	7,152,769
LIABILITIES					
Current liabilities					
Trade and other payables	m	777,525	(501)	-	777,024
Interest-bearing loans and borrowings		574,906	-	-	574,906
Income tax payable	m	98,870	197	-	99,067
Provisions	g	167,306	6,556	-	173,862
Insurance liabilities		836,580	-	-	836,580
Other		79,960	-	-	79,960
Total current liabilities		2,535,147	6,252	-	2,541,399
Non-current liabilities					
Payables		15,204	-	-	15,204
Interest-bearing loans and borrowings	m	1,221,722	3,382	-	1,225,104
Deferred tax liabilities	d, e, m	101,652	64,198	(22,443)	143,407
Provisions	e	102,501	125,850	-	228,351
Insurance liabilities		195,245	-	-	195,245
Other		61,858	-	-	61,858
Total non-current liabilities		1,698,182	193,430	(22,443)	1,869,169
Total liabilities		4,233,329	199,682	(22,443)	4,410,568
Net assets		3,081,019	(279,366)	(59,452)	2,742,201
EQUITY					
Equity attributable to equity holders of the parent					
Contributed equity	see below	2,014,799	(113,635)	-	1,901,164
Employee reserved shares	a	-	(215,354)	-	(215,354)
Retained earnings	see below	1,003,470	(28,445)	(59,452)	915,573
Reserves	see below	64,409	76,357	-	140,766
Minority interests	m	(1,659)	1,711	-	52
Total equity		3,081,019	(279,366)	(59,452)	2,742,201

Notes to the financial statements

for the year ended 30 June 2006 - Wesfarmers Limited and its controlled entities

37 TRANSITION TO AIFRS (continued)

Restated balance sheet on adoption of revised AASB 1023, AASB 132 and AASB 139 as at 1 July 2005

	Note	CONSOLIDATED			
		AGAAP \$000	AIFRS IMPACT \$000	CHANGE IN ACCOUNTING POLICY \$000	AIFRS \$000
ASSETS					
Current assets					
Cash and cash equivalents		83,846	-	-	83,846
Trade and other receivables		1,204,980	-	-	1,204,980
Inventories		1,149,647	-	-	1,149,647
Derivatives	i	-	69,795	-	69,795
Other insurance assets		633,894	-	-	633,894
Total current assets		3,072,367	69,795	-	3,142,162
Non-current assets					
Receivables		70,349	-	-	70,349
Available-for-sale investments	j	11,092	2,609	-	13,701
Investment in associates	i, j	439,464	3,908	-	443,372
Deferred tax assets	k	105,002	1,702	-	106,704
Property, plant and equipment		1,988,229	-	-	1,988,229
Goodwill		1,466,266	-	-	1,466,266
Derivatives	i	-	69,298	-	69,298
Total non-current assets		4,080,402	77,517	-	4,157,919
Total assets		7,152,769	147,312	-	7,300,081
LIABILITIES					
Current liabilities					
Trade and other payables		777,024	-	-	777,024
Interest-bearing loans and borrowings		574,906	-	-	574,906
Income tax payable		99,067	-	-	99,067
Provisions		173,862	-	-	173,862
Derivatives	i	-	7,700	-	7,700
Insurance liabilities	k	836,580	5,675	-	842,255
Other		79,960	-	-	79,960
Total current liabilities		2,541,399	13,375	-	2,554,774
Non-current liabilities					
Payables		15,204	-	-	15,204
Interest-bearing loans and borrowings	i	1,225,104	5,809	-	1,230,913
Deferred tax liabilities	i, j	143,407	36,113	-	179,520
Provisions		228,351	-	-	228,351
Derivatives	i	-	7,815	-	7,815
Insurance liabilities		195,245	-	-	195,245
Other		61,858	-	-	61,858
Total non-current liabilities		1,869,169	49,737	-	1,918,906
Total liabilities		4,410,568	63,112	-	4,473,680
Net assets		2,742,201	84,200	-	2,826,401
EQUITY					
Equity attributable to equity holders of the parent					
Contributed equity		1,901,164	-	-	1,901,164
Employee reserved shares		(215,354)	-	-	(215,354)
Retained earnings	k	915,573	(3,975)	-	911,598
Reserves	i, j	140,766	88,175	-	228,941
Minority interests		52	-	-	52
Total equity		2,742,201	84,200	-	2,826,401

Notes to the financial statements

for the year ended 30 June 2006 - Wesfarmers Limited and its controlled entities

37 TRANSITION TO AIFRS (continued)

	Note	CONSOLIDATED		
		1 JULY 2005 \$000	30 JUNE 2005 \$000	1 JULY 2004 \$000
Breakdown of impact on contributed equity				
Reclassification of restructure tax reserve	m	-	(110,943)	(128,168)
Shortfall in employee reserved shares capital	a	-	(2,692)	(2,693)
		-	(113,635)	(130,861)
Breakdown of impact on retained earnings				
Shortfall in employee reserved shares capital written back	a	-	2,692	2,693
Impairment of assets including goodwill	b	-	(18,419)	(21,019)
Write-back of goodwill amortisation	c	-	90,430	-
Tax effect of untaxed undistributed earnings of associates	d	-	(29,953)	(21,024)
Tax effect of fair value adjustments on acquisition	d	-	(23,082)	(23,518)
Recognition of rehabilitation provisions	e	-	(56,835)	(55,486)
Derecognition of pre-opening store costs	f	-	(11,199)	(8,530)
Recognition of pension liability	g	-	(4,589)	-
Inventory valuation adjustment	h	-	(11,494)	(11,592)
Increase in insurance liabilities	k	(3,975)	-	-
Associate's revaluation of investment properties	l	-	4,701	2,384
Reclassification of asset revaluation reserve	l	-	36,449	27,500
Other minor adjustments	m	-	(7,146)	(4,317)
		(3,975)	(28,445)	(112,909)
Breakdown of impact on reserves				
Reclassification of restructure tax reserve	m	-	110,943	128,168
Reclassification of asset revaluation reserve	l	-	(36,449)	(27,500)
Adjustment to foreign currency translation reserve	b	-	1,863	-
Fair value of hedge derivatives	i	77,109	-	-
Mark-to-market available-for-sale financial assets	j	11,066	-	-
		88,175	76,357	100,668

Income statement reconciliation for the year ended 30 June 2005

	Note	AGAAP \$000	PARENT	
			AIFRS IMPACT \$000	AIFRS \$000
Revenue				
Sale of goods		140,812	-	140,812
Rendering of services		56,118	-	56,118
Interest		12,541	-	12,541
Dividends		630,896	-	630,896
Other		4,589	-	4,589
		844,956	-	844,956
Cost of sales		(82,618)	-	(82,618)
Direct service expenses		(56,584)	-	(56,584)
Gross profit		705,754	-	705,754
Other income	m	274	(172)	102
Administrative expenses	g, m	(53,246)	(6,556)	(59,802)
Doubtful debts		(10,541)	-	(10,541)
Finance costs		(99,108)	-	(99,108)
Profit before income tax		543,133	(6,728)	536,405
Income tax credit	g	48,234	1,966	50,200
Profit after tax from continuing operations		591,367	(4,762)	586,605

Notes to the financial statements

for the year ended 30 June 2006 - Wesfarmers Limited and its controlled entities

37 TRANSITION TO AIFRS (continued)

Balance sheet reflecting reconciliation of adjustments to AIFRS as at 1 July 2004

	Note	AGAAP \$000	PARENT AIFRS IMPACT \$000	AIFRS \$000
ASSETS				
Current assets				
Cash and cash equivalents		59,291	-	59,291
Trade and other receivables	a	2,422,910	(20,960)	2,401,950
Total current assets		2,482,201	(20,960)	2,461,241
Non-current assets				
Receivables	a	253,101	(252,701)	400
Investment in subsidiaries	m	4,418,089	(15,635)	4,402,454
Deferred tax assets	m	60,118	(52,976)	7,142
Property, plant and equipment		23,751	-	23,751
Total non-current assets		4,755,059	(321,312)	4,433,747
Total assets		7,237,260	(342,272)	6,894,988
LIABILITIES				
Current liabilities				
Trade and other payables		2,727,286	-	2,727,286
Interest-bearing loans and borrowings		219,878	-	219,878
Income tax payable		116,780	-	116,780
Provisions		17,404	-	17,404
Insurance liabilities		5,286	-	5,286
Total current liabilities		3,086,634	-	3,086,634
Non-current liabilities				
Interest-bearing loans and borrowings		1,206,445	-	1,206,445
Deferred tax liabilities	m	83,034	(68,611)	14,423
Provisions		6,276	-	6,276
Total non-current liabilities		1,295,755	(68,611)	1,227,144
Total liabilities		4,382,389	(68,611)	4,313,778
Net assets		2,854,871	(273,661)	2,581,210
EQUITY				
Contributed equity	a, m	2,339,733	(130,864)	2,208,869
Employee reserved shares	a	-	(273,661)	(273,661)
Retained earnings	a, m	457,071	60,763	517,834
Reserves	m	58,067	70,101	128,168
Total equity		2,854,871	(273,661)	2,581,210

Notes to the financial statements

for the year ended 30 June 2006 - Wesfarmers Limited and its controlled entities

37 TRANSITION TO AIFRS (continued)

Balance sheet reflecting reconciliation of adjustments to AIFRS as at 30 June 2005

	Note	AGAAP \$000	PARENT AIFRS IMPACT \$000	AIFRS \$000
ASSETS				
Current assets				
Cash and cash equivalents		27,601	-	27,601
Trade and other receivables	a	2,206,360	(15,404)	2,190,956
Total current assets		2,233,961	(15,404)	2,218,557
Non-current assets				
Receivables	a	189,408	(189,280)	128
Investment in subsidiaries	m	4,451,216	(48,029)	4,403,187
Deferred tax assets	g, m	54,806	(42,018)	12,788
Property, plant and equipment		23,478	-	23,478
Total non-current assets		4,718,908	(279,327)	4,439,581
Total assets		6,952,869	(294,731)	6,658,138
LIABILITIES				
Current liabilities				
Trade and other payables	g	2,493,436	-	2,493,436
Interest-bearing loans and borrowings		428,445	-	428,445
Income tax payable		106,175	-	106,175
Provisions		18,202	6,556	24,758
Insurance liabilities		18,034	-	18,034
Total current liabilities		3,064,292	6,556	3,070,848
Non-current liabilities				
Interest-bearing loans and borrowings		1,220,345	-	1,220,345
Deferred tax liabilities	m	92,104	(92,013)	91
Provisions		7,333	-	7,333
Total non-current liabilities		1,319,782	(92,013)	1,227,769
Total liabilities		4,384,074	(85,457)	4,298,617
Net assets		2,568,795	(209,274)	2,359,521
EQUITY				
Contributed equity	a, m	2,008,899	(113,638)	1,895,261
Employee reserved shares	a	-	(204,512)	(204,512)
Retained earnings	a, m	501,829	56,000	557,829
Reserves	m	58,067	52,876	110,943
Total equity		2,568,795	(209,274)	2,359,521

Notes to the financial statements

for the year ended 30 June 2006 - Wesfarmers Limited and its controlled entities

37 TRANSITION TO AIFRS (continued)

Restated balance sheet on adoption of AASB 132 and AASB 139 as at 1 July 2005

	Note	AGAAP 1 JULY 2005 \$000	PARENT AIFRS IMPACT \$000	AIFRS \$000
ASSETS				
Current assets				
Cash and cash equivalents		27,601	-	27,601
Trade and other receivables		2,190,956	-	2,190,956
Derivatives	i	-	77,495	77,495
Total current assets		2,218,557	77,495	2,296,052
Non-current assets				
Receivables		128	-	128
Investment in subsidiaries		4,403,187	-	4,403,187
Deferred tax assets		12,788	870	13,658
Property, plant and equipment		23,478	-	23,478
Derivatives	i	-	77,113	77,113
Total non-current assets		4,439,581	77,983	4,517,564
Total assets		6,658,138	155,478	6,813,616
LIABILITIES				
Current liabilities				
Trade and other payables		2,493,436	-	2,493,436
Interest-bearing loans and borrowings		428,445	-	428,445
Income tax payable		106,175	-	106,175
Provisions		24,758	-	24,758
Derivatives	i	-	77,495	77,495
Insurance liabilities		18,034	-	18,034
Total current liabilities		3,070,848	77,495	3,148,343
Non-current liabilities				
Interest-bearing loans and borrowings	i	1,220,345	5,809	1,226,154
Deferred tax liabilities		91	-	91
Provisions		7,333	-	7,333
Derivatives	i	-	74,206	74,206
Total non-current liabilities		1,227,769	80,015	1,307,784
Total liabilities		4,298,617	157,510	4,456,127
Net assets		2,359,521	(2,032)	2,357,489
EQUITY				
Contributed equity		1,895,261	-	1,895,261
Employee reserved shares		(204,512)	-	(204,512)
Retained earnings		557,829	-	557,829
Reserves		110,943	(2,032)	108,911
Total equity		2,359,521	(2,032)	2,357,489

Notes to the financial statements

for the year ended 30 June 2006 - Wesfarmers Limited and its controlled entities

37 TRANSITION TO AIFRS (continued)

Outlined below are the areas impacted upon adoption of AIFRS, including impact on equity and profit:

- (a) Under AASB 2 Share-based Payment, the employee share loan plan arrangements have been treated as an in-substance grant of options because of the limited recourse nature of the loans. This treatment requires the balance of the employee share loan plan receivable asset to be derecognised against contributed equity, and diluted earnings per share has been adjusted accordingly. No adjustment was made to retained earnings in relation to the remuneration benefit arising from these grants, as a result of the exemption available in AASB 1 for fully vested option issues. In prior years, amounts forgiven as a result of the limited recourse nature of the loans were treated as bad debts and expensed to the income statement. Under AIFRS this treatment is reversed and the shortfall is treated as a reduction of contributed equity;
- (b) Under AASB 136 Impairment of Assets, the recoverable amount of an asset is determined as the higher of its net selling price and value in use. The Group's previous accounting policy was to determine the recoverable amount of an asset on the basis of nominal cash flows. The Group's assets including goodwill were tested for impairment on transition and each subsequent reporting date as part of the cash generating unit to which they belong. This resulted in impairment losses being recognised under AIFRS. The adjustment represents lower amortisation and depreciation due to assets being written down on transition to AIFRS, offset by impairment losses recognised during the periods;
- (c) Under AASB 3 Business Combinations, goodwill is not permitted to be amortised but instead is subject to impairment testing on an annual basis or upon the occurrence of triggers which may indicate a potential impairment. Previously, the Group amortised goodwill over its useful life but not exceeding 20 years. The group has not elected to apply AASB 3 retrospectively and hence, prior year amortisation has not been written-back as at the date of transition;
- (d) Under AASB 112 Income Taxes, the Group is required to use a balance sheet liability method, rather than the previous income statement method, which recognises deferred tax balances where there is a difference between the carrying value of an asset or liability and its tax base. This results in the recognition of a deferred tax liability in relation to the share of undistributed earnings of associated entities upon which income tax has not been paid, and a deferred tax liability in relation to fair value adjustments of assets recognised in a business combination which had not been previously tax effected;
- (e) Under AASB 137 Provisions, Contingent Liabilities and Contingent Assets, the Group is required to recognise as a provision an estimate of the present value of the costs to rehabilitate mining and production areas at the end of the mine life or plant life where such an obligation exists to the owner. These provisions were recognised on an incremental basis over the asset life under AGAAP. A corresponding asset has also been recognised under AIFRS in accordance with AASB 116 Property, Plant and Equipment to the extent that the asset has a remaining useful life. To the extent that either the asset has been amortised or where the asset has been acquired by the consolidated entity at fair value, the adjustment in recognising the provision has gone to retained earnings. In addition, under AASB 137, the increase in the rehabilitation provision relating to the unwinding of the discount is recognised in the income statement. These adjustments are offset by the reversal of periodic rehabilitation provisioning charged under AGAAP for the year;
- (f) Under AASB 138 Intangible Assets, certain costs incurred in the pre-opening phase of a retail store development have been expensed. The Group's previous accounting policy allowed for the capitalisation of such costs in line with common industry practice. The adjustment represents lower depreciation due to capitalised costs being written off on transition to AIFRS, offset by costs incurred during the periods being fully expensed;
- (g) Under AASB 119 Employee Benefits, the Group is required to recognise a liability for the net deficit on an actuarial calculation of the defined benefit component of the Wesfarmers Superannuation Fund. The Group has elected to recognise actuarial gains and losses as income or expense in the income statement, compared to the cash basis under previous AGAAP;
- (h) As a result of an interpretation issued by UIG as "Guidance on Rejected Issues - Inventory Rebates and Settlement Discounts" in September 2005, the Group now reduces the purchase price of inventory for settlement discounts received, rather than recognising in full the discounts as revenue arising from a financing transaction;

Notes to the financial statements

for the year ended 30 June 2006 - Wesfarmers Limited and its controlled entities

37 TRANSITION TO AIFRS (continued)

- (i) Under AASB 139 Financial Instruments: Recognition and Measurement, the Group's interest rate swap agreements and foreign exchange contracts qualify for hedge accounting, with the effective portion of the fair value movements in cash flow hedges reflected in the hedge reserve and the related hedge receivable or payable recognised as an asset or liability. For fair value hedges the carrying amount of the liability was adjusted for the loss attributable to the risk being hedged and the fair value of the hedge instrument recognised as an asset accordingly;
- (j) Under AASB 139 Financial Instruments: Recognition and Measurement, the Group has used the available-for-sale classification for investments in listed shares and other investments on transition to AIFRS, including accounting for such investments through holdings by associated entities. This has resulted in those investments being restated to fair value (where appropriate through the investment in associates) and the creation of an equity reserve in the balance sheet;
- (k) Under revised AASB 1023 General Insurance Contracts, the Group has conducted liability adequacy testing on a class of insurance business basis, rather than in aggregate. This has resulted in a deficiency in a particular class of business being written off to the income statement, rather than being offset by a surplus in a different class of business under the previous policy. The liability for outstanding insurance claims has been increased and retained profits, after allowing for the deferred tax asset created, has reduced accordingly;
- (l) Under AASB 140 Investment Property, an associate, Bunnings Warehouse Property Trust, is required to recognise revaluations of investment properties through the income statement, rather than through a revaluation reserve as under AGAAP. This has resulted in a reclassification of the share of reserves at transition to retained earnings, and a share of revaluation increments being recognised as associate earnings in the income statement; and
- (m) Other minor adjustments include a number of balance sheet reclassifications or immaterial profit items, such as:
 - reclassification of the category of revenues, other income and expenses;
 - derecognition of training costs capitalised in plant and equipment;
 - reversal of fair value adjustments made for AGAAP purposes beyond the 12-month window in AASB 3;
 - recognition of minor previously unrecognised assets and liabilities acquired under business combinations;
 - derecognition of outside equity interests' share of a capital deficiency in the absence of a binding obligation and capability to cover that deficiency;
 - reclassification of the benefit arising from tax losses associated with the 2001 ownership simplification plan previously disclosed as contributed equity to reserves;
 - reclassification in the parent company of deferred tax assets and liabilities previously recognised for subsidiaries under tax consolidation now treated as intercompany loans;
 - reclassification of the balance of asset revaluation reserve to retained profits; and
 - sundry tax effect accounting adjustments.

Directors' report

Wesfarmers Limited and its controlled entities

The
conjunction with the following information:

	2006 \$000	2005 \$000
RESULTS AND DIVIDENDS		
Operating profit		
Profit from ordinary activities after income tax expense	1,048,142	701,837
Net profit attributable to outside equity interests	-	-
Net profit attributable to members of the parent entity	1,048,142	701,837
Dividends		
The following dividends have been paid by the company or declared by the directors since the commencement of the financial year ended 30 June 2006:		
(a) out of the profits for the year ended 30 June 2005 on the fully-paid ordinary shares:		
fully franked final dividend of 127 cents per share paid on 29 August 2005 as disclosed in last year's directors' report	480,114	
(b) out of the profits for the year ended 30 June 2006 and retained earnings on the fully-paid ordinary shares:		
(i) fully franked interim dividend of 65 cents per share paid on 8 March 2006	245,728	
(ii) fully franked final dividend of 150 cents per share paid on 4 September 2006	567,063	

Principal activities

The principal activities of entities within the consolidated entity during the year were:

- retailing of home and garden improvement products and building materials;
- coal mining and production;
- gas processing and distribution;
- insurance;
- industrial and safety product distribution;
- chemicals and fertilisers manufacture;
- rail transport; and
- investments.

The sale of the Australian Railroad Group to Babcock & Brown Limited and Queensland Rail was completed on 2 June 2006.

There have been no significant changes in the nature of those activities during the year.

DIRECTORS

Information on directors

The names and details of the directors of the company in office as at the date of this report appear on pages 40 and 41.

Mr T J Flügge, who had been a non-executive director since 1998, resigned as a director on 3 July 2006. Mr D A Robb, who had been an executive director since 2004, resigned as a director on 8 September 2006.

Directors' shareholdings

Securit

	BUNNINGS WAREHOUSE PROPERTY TRUST UNITS	WESFARMERS LIMITED ORDINARY SHARES
C B Carter	-	4,000
P A Cross	-	3,500
T R Eastwood	-	878,694
R L Every	-	2,000
L A Giglia	23,386	11,516
R J B Goyder	-	112,901
J P Graham	9,334	966,959
R D Lester	-	44,614
C Macek	-	5,000
G T Tilbrook	22,779	153,224
D C White	-	9,243

Directors' report

Wesfarmers Limited and its controlled entities

Insurance and indemnification of directors and officers

During or since the end of the financial year, the company has paid premiums in respect of a contract insuring all directors and officers of Wesfarmers Limited and its related entities against liability incurred in that capacity. Disclosure of the nature of the liability covered by the insurance and premiums paid is subject to confidentiality requirements under the contract of insurance.

In accordance with the company's Constitution, the company has entered into Deeds of Indemnity, Insurance and Access with each of the directors of the company. These deeds:

- indemnify a director to the full extent permitted by law against any liability incurred by the director:
 - as an officer of the company or of a related body corporate; and
 - to a person other than the company or a related body corporate, unless the liability arises out of conduct on the part of the director which involves a lack of good faith;
- provide for insurance against liability incurred as a director; and
- provide a director with continuing access, while in office and for a specified period after the director ceases to be a director, to certain company documents which relate to the director's period in office.

In addition, the company's Constitution provides for the indemnity of officers of the company or its related bodies corporate from liability

No indemnity payment has been made under any of the documents referred to above during or since the end of the financial year.

Auditor

The company's auditor is Ernst & Young.

The company has agreed with Ernst & Young, as part of its terms of engagement, to indemnify Ernst & Young against certain liabilities to third parties arising from the audit engagement. The indemnity does not extend to any liability resulting from a negligent, wrongful or wilful act or omission by Ernst & Young. Otherwise the company has not given or agreed to give any indemnity to any current or past auditor.

During the financial year:

- the company has not paid any premium in respect to any insurance for Ernst & Young or a body corporate related to Ernst & Young; and
- there were no officers of the company who were former partners or directors of Ernst & Young, whilst Ernst & Young conducted audits of the company.

Directors' and other officers' remuneration

Discussion of the Board's policy for determining the nature and amount of remuneration for directors and senior executives and the relationship between such policy and company performance are contained in the Remuneration Report on pages 131 to 142 of this report.

Options

No options over unissued shares in the company were in existence at the beginning of the financial year or granted during or since the end of the financial year.

Directors' meetings

The following table sets out the number of directors' meetings (including meetings of Board committees) held during the year ended 30 June 2006 and the number of meetings attended by each director.

DIRECTOR	BOARD		AUDIT COMMITTEE		NOMINATION AND REMUNERATION COMMITTEE	
	ELIGIBLE TO ATTEND	ATTENDED	ELIGIBLE TO ATTEND	ATTENDED	ELIGIBLE TO ATTEND	ATTENDED
T R Eastwood	10	10			4	4
M A Chaney	1	1				
C B Carter	10	10			4	4
P A Cross	10	10			4	3
R L Every	3	3	1	1		
T J Flügge	10	7	8	6	4	2
L A Giglia	10	10			4	4
R J B Goyder	10	10				
J P Graham	10	10	8	8		
R D Lester	10	8	8	8		
C Macek	10	10	8	8		
D A Robb	10	10				
G T Tilbrook	10	9				
D C White	10	10	8	8		

Directors' report

Wesfarmers Limited and its controlled entities

COMPANY SECRETARIES

The qualifications and experience of each individual who was a company secretary of Wesfarmers Limited as at the end of the financial year are set out below.

Linda Kenyon Age: 47

Appointed Company Secretary of Wesfarmers Limited in April 2002. Linda holds a Bachelor of Laws and Bachelor of Jurisprudence degrees from the University of Western Australia and is a Fellow of Chartered Secretaries Australia. She joined Wesfarmers in 1987 as legal counsel and held that position until 2000 when she was appointed Manager of Bunnings Property Management Limited, the responsible entity for the listed Bunnings Warehouse Property Trust. Linda is also Company Secretary of a number of Wesfarmers group subsidiaries.

Paul Gardiner Age: 54

Paul, who holds a Bachelor of Laws from the University of Western Australia, joined the Wesfarmers group in 1978 as the Assistant Company Secretary of Westralian Farmers Co-operative Limited. He was Company Secretary of Wesfarmers Limited from December 1984 to July 1986 and has been Assistant Company Secretary since that date. Paul is also Company Secretary of a number of Wesfarmers group subsidiaries.

REVIEW OF RESULTS AND OPERATIONS

The operations of the consolidated entity during the financial year and the results of those operations are reviewed on pages 2 to 34 of this report and in the accompanying financial statements. This review includes information on the financial position of the consolidated entity and its business strategies and prospects for future financial years. In the opinion of directors, disclosure of f consolidated entity. That material has therefore been omitted from the review.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Particulars of the significant changes in the state of affairs of the consolidated entity during the financial year are as follows:

- operating revenue from ordinary activities up from \$8.2 billion to \$8.9 billion see pages 2 and 3
- net profit for the financial year attributable to members (excluding the sale of the Australian Railroad Group) up 23.9 per cent to \$869.4 million see pages 2 and 3
- dividends per share paid or payable up 19.4 per cent to \$2.15 see pages 2, 3 and 4
- total assets up 5.1 per cent to \$7.5 billion see page 3
- shareholders' equity up 15.5 per cent to \$3.2 billion see page 3
- net borrowings down 15.4 per cent to \$1.5 billion see page 3
- on 13 July 2005, Mr R J Goyder assumed the role of Managing Director and Chief Executive Officer following the retirement of Mr M A Chaney see page 42
- on 2 June 2006, the sale of the Australian Railroad Group to Babcock & Brown Limited and Queensland Rail was completed see pages 2 and 34

SIGNIFICANT EVENTS AFTER THE BALANCE DATE

The following significant events have arisen since the end of the financial year:

- on 4 September 2006, a dividend of \$1.50 per share was paid, resulting in the payment of \$567.1 million;
- on 5 September 2006 the group announced an intention to make a conditional cash offer of \$4.50 per share for the entire issued capital of OAMPS Ltd. ("OAMPS"), an insurance broking and underwriting company listed in Australia. If successful the offer will involve the payment of approximately \$700 million to OAMPS shareholders. As at 11 September 2006 the group had a relevant interest in 16.22 per cent of the ordinary shares in OAMPS; and
- on 8 September 2006, Mr D A Robb resigned as Executive Director Wesfarmers Limited and Managing Director of the energy division.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

Likely developments in, and expected results of, the operations of the consolidated entity in subsequent years are referred to elsewhere in this report, particularly on pages 7 to 34. In the opinion of the directors, disclosure of further material relating to those matters could result in unreasonable prejudice to the interests of the company and the consolidated entity. That material has therefore been omitted from this report.

Directors' report

Wesfarmers Limited and its controlled entities

NON-AUDIT SERVICES

The following non-audit services were provided to the consolidated entity during the year ended 30 June 2006 and Ernst & Young received or is due to receive the following amounts for the provision of these services:

	\$000
Tax compliance and advice	399
Government tax concessions	154
Corporate financial advice	1,445
Assurance related	213
Special audits required by regulators	60
Other sundry services	66
Total	2,337

The Audit Committee has, following the passing of a resolution of the committee, provided the Board with written advice in relation to the provision of non-audit services by Ernst & Young.

The Board has considered the Audit Committee's advice, and the non-audit services provided by Ernst & Young, and is satisfied that the provision of these services during the year by the auditor is compatible with, and did not compromise, the general standard of auditor independence imposed by the Corporations Act 2001 for the following reasons:

- the non-audit services provided do not involve reviewing or auditing the auditor's own work or acting in a management or decision-making capacity for the company;
- all non-audit services were subject to the corporate governance procedures and policies adopted by the company and have been reviewed by the Audit Committee to ensure they do not affect the integrity and objectivity of the auditor; and
- there is no reason to question the veracity of the auditor's independence declaration, a copy of which has been reproduced below.

AUDITOR INDEPENDENCE

The directors received the following declaration from the external auditor:



■ **The Ernst & Young Building**
11 Mounts Bay Road
Perth WA 6000
Australia

■ Tel 61 8 9429 2222
Fax 61 8 9429 2436

GPO Box M939
Perth WA 6843

Auditor's Independence Declaration to the Directors of Wesfarmers Limited

In relation to our audit of the financial report of Wesfarmers Limited for the financial year ended 30 June 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

G H MEYEROWITZ
Partner
Perth, 12 September 2006

Directors' report

Wesfarmers Limited and its controlled entities

ENVIRONMENTAL REGULATION AND PERFORMANCE

The activities of the consolidated entity are subject to environmental regulation by various authorities throughout Australia and New Zealand.

Licences granted to the consolidated entity regulate the management of air and water quality, the storage and carriage of hazardous materials, the disposal of wastes and other environmental matters associated with the consolidated entity's operations.

During the year there have been no known material breaches of the consolidated entity's licence conditions.

PROCEEDINGS ON BEHALF OF THE COMPANY

No proceedings have been brought on behalf of the company, nor have any applications been made in respect of the company under section 237 of the Corporations Act 2001.

CORPORATE GOVERNANCE

In recognising the need for high standards of corporate behaviour and accountability, the directors of Wesfarmers Limited support and have adhered to the ASX Corporate Governance Council Principles of Good Corporate Governance and Best Practice Recommendations. The company's corporate governance statement is on pages 42 to 47 of this report.

CORPORATE INFORMATION

Wesfarmers Limited is a company limited by shares that is incorporated and domiciled in Australia. The registered office and principal business address of Wesfarmers Limited is 11th floor, Wesfarmers House, 40 The Esplanade, Perth, Western Australia.

ROUNDING

The amounts contained in this report and in the financial statements have been rounded to the nearest thousand dollars under the option available to the company under ASIC Class Order 98/0100. The company is an entity to which the Class Order applies.

REMUNERATION REPORT

This report provides details of Wesfarmers' policy for determining the remuneration of key management personnel; the relationship between the policy and the performance of the company during the financial year; and the remuneration of Board members and senior executives.

It includes information on the remuneration for the 2005/06 financial year of:

- the non-executive directors of Wesfarmers Limited ("Non-executive Directors") being:
 - C B Carter
 - P A Cross
 - T R Eastwood
 - R L Every (appointed 14 February 2006)
 - T J Flügge (resigned 3 July 2006)
 - L A Giglia
 - J P Graham
 - R D Lester
 - C Macek
 - D C White
- the executive directors of Wesfarmers Limited ("Executive Directors") being:
 - R J B Goyder (group Managing Director - appointed 13 July 2005)
 - M A Chaney (group Managing Director - retired 12 July 2005)
 - D A Robb (resigned 8 September 2006)
 - G T Tilbrook (Finance Director - appointed 13 July 2005)
- the other key management personnel which include the five highest paid executives of the Wesfarmers group during 2005/06, ("Senior Executives"), being:
 - T M Bowen (appointed 24 October 2005)
 - R J Buckley
 - P J C Davis
 - R M Denby (resigned 30 November 2005)
 - J C Gillam
 - K D Gordon
- other senior managers who, during 2005/06:
 - made, or participated in making, decisions that affected the whole, or a substantial part, of the business of the Wesfarmers group; or
 - who had the capacity to significantly affect the Wesfarmers group's financial standing, including the Company Secretary of Wesfarmers Limited ("Senior Managers").

Directors' report

Wesfarmers Limited and its controlled entities

1 REMUNERATION POLICIES

Wesfarmers aligns its remuneration policies with shareholder interests by setting performance targets for senior executives that are based on factors that are under their control and that maximise long-term shareholder returns. These policies are directed at attracting, motivating and retaining quality people. Key principles in developing the remuneration structure and levels are: creation of shareholder value; market competitiveness; and recognition of individual performance.

Alignment with these principles is achieved through a variable pay structure. Annual incentives are heavily weighted to return on capital and earnings before interest and tax measures, and long term incentives have a return on equity focus. These are the key measures that Wesfarmers uses at a business unit and corporate level to assess the achievement of the company's corporate objective of providing a satisfactory return to shareholders.

In the opinion of the directors the company's remuneration policies have contributed to the company's success in creating shareholder value in 2005/06 and the previous four financial years, as demonstrated by the following table which tracks key measures of earnings and total shareholder returns.

	2006	2005 AIFRS	2005 AGAAP	2004	2003	2002
Dividends per share (cents)	215	180	180	140	127	111
Closing share price (\$ as at 30 June)	35.33	40.01	40.01	29.40	25.30	27.20
Earnings per share (cents)	235.6+	192.0	187.8	174.2*	150.8#	138.2
Net profit after tax (\$ million)	869+	702	618	569*	482#	414
Return on average ordinary shareholders' funds (%)	31.1+	25.4	19.6	16.2*	13.3#	13.2
Capital returns per share (cents)	-	100	100	250	-	-

+ excluding the sale of ARG

* excluding the sale of Landmark

excluding the sale of Girrah

2 NOMINATION AND REMUNERATION COMMITTEE

The Nomination and Remuneration Committee is responsible for reviewing and making recommendations to the Board on remuneration policies for the company including, in particular, those governing key management personnel. The Nomination and Remuneration Committee seeks independent advice in setting the structure and levels of remuneration.

3 NON-EXECUTIVE DIRECTORS

The company's Non-executive Directors receive fees (including statutory superannuation) for their services plus the reimbursement of reasonable expenses. The fees paid to Non-executive Directors reflect the demands on and responsibilities of those directors. The advice of independent remuneration consultants is taken to ensure that the directors' fees are in line with market levels. Non-executive Directors currently do not receive any shares, options or other securities as part of their remuneration nor are they eligible to participate in any incentive plan. They do not receive any retirement benefits, other than statutory and voluntary superannuation. Shareholder approval will be sought at the 2006 annual general meeting in relation to a salary sacrifice share plan for Non-executive Directors. The plan will enable participating directors to forego a portion of their fees to acquire shares in the company. The shares will be issued or purchased at market price and be subject to forfeiture and trading restrictions in accordance with the plan rules. The plan will support increased equity participation in the company by the Non-executive Directors.

The Board aims to set the aggregate remuneration at a level which provides the ability for Wesfarmers to attract and retain highly competent directors. The aggregate remuneration level is determined from time to time by shareholders in general meeting, in accordance with the company's Constitution. The aggregate amount is then apportioned between the directors as agreed, taking into account market comparisons provided by independent remuneration consultants. An aggregate remuneration limit, for Non-executive Directors of Wesfarmers Limited, of \$2.25 million was approved by shareholders at the annual general meeting in November 2004 of which \$1.67 million is currently committed.

The remuneration of the Non-executive directors was not increased in 2005/06. The Chairman is paid \$408,900 per annum and other Non-executive Directors receive \$136,300 per annum each. The Chairman of the Audit Committee receives an additional \$40,000 and each of the other Audit Committee members receives an additional \$20,000. The Chairman of the Nomination and Remuneration Committee receives an additional \$20,000 and each of the other members of this Committee receives an additional \$10,000. Mr James Graham also receives separate fees for services provided as a director of Wesfarmers Federation Insurance Limited and Lumley General Insurance Limited. Remuneration of Non-executive Directors for the period ended 30 June 2006 is detailed in Table 1(a).

4 REMUNERATION OF EXECUTIVE DIRECTORS AND SENIOR EXECUTIVES

The remuneration structure for Executive Directors and Senior Executives has three main components: fixed annual remuneration ("FAR"), annual incentive and long term incentive. A retention incentive may also be provided, payable only on termination of employment.

Directors' report

Wesfarmers Limited and its controlled entities

4 REMUNERATION OF EXECUTIVE DIRECTORS AND SENIOR EXECUTIVES (continued)

4.1 Fixed annual remuneration

The base component of remuneration for Executive Directors and Senior Executives is FAR. They may elect to have a combination of benefits, including superannuation and the provision of a motor vehicle, provided out of their FAR. The value of any non-cash benefits provided to them includes the costs of any fringe benefits tax payable by the company as a result of providing the benefit. The amount of FAR for each Executive Director and Senior Executive is approved annually by the Board with consideration given to business and individual performance and market relativity.

FAR includes the minimum superannuation contribution required by law which is paid into a nominated superannuation fund. Executive Directors and Senior Executives may choose to increase the company contribution beyond the minimum level, by sacrificing part of their FAR.

This policy applied for both the current and prior year.

4.2 Annual incentive

The annual incentive is linked to group and individual business unit financial and operational performance. All Executive Directors and Senior Executives (other than the group Managing Director), are invited to participate in an annual incentive scheme which provides cash incentives where specified criteria are met. These include annual profit and return on capital targets, individual goals and where appropriate, safety targets for business operations for which they are responsible. These measures were chosen because of their impact on return on equity, which is a key group measure of annual achievement of satisfactory return to shareholders. Executive Directors and Senior Executives are rewarded for the performance of both the business they manage and the group as a whole. The specific measures and weightings vary for Executive Directors and Senior Executives within the following ranges:

MEASURES	WEIGHTING
Financial	0.5 to 0.7
<ul style="list-style-type: none"> • Group net profit after tax • Divisional earnings before interest and tax • Divisional return on capital 	
Non-financial	0.3 to 0.5
<ul style="list-style-type: none"> • Safety measures • Discretionary 	
Total	1.0

Financial targets are generally set so that participants receive a nil payment at 92.5 per cent of budget performance, increasing on a pro-rata basis to two thirds of the maximum for achieving 100 per cent of budget and a maximum payment for achieving 110 per cent or more of budget. The annual divisional and group budgets are subject to Board approval.

Subject to reaching the minimum performance measures and hurdles, a cash payment totalling between 0 per cent and 60 per cent of the executive's FAR is made. Incentive payments are determined after the preparation of the financial statements each year, and a review of performance against non-financial measures by the group Managing Director.

This policy applied for both the current and prior year.

For the 2006 financial year incentives entitlements were paid to Executive Directors and Senior Executives in August 2006. Most Divisions, with the exception of Home Improvement, did not meet their financial targets however non-financial targets were met. The percentage of the total incentive paid and the percentage of the incentive forfeited by Executive Directors and Senior Executives is as follows:

	PERCENTAGE OF TOTAL INCENTIVE	
	% PAID	% FORFEITED
T M Bowen	29%	71%
R J Buckley	20%	80%
P J C Davis	55%	45%
J C Gillam	44%	56%
K D Gordon	30%	70%
D A Robb	0%	100%
G T Tilbrook	40%	60%

Directors' report

Wesfarmers Limited and its controlled entities

4 REMUNERATION OF EXECUTIVE DIRECTORS AND SENIOR EXECUTIVES (continued)

4.3 Long term incentive

The Nomination and Remuneration Committee strives to seek an appropriate balance between risk and reward in setting long term incentive arrangements. The primary objective is to ensure that long term incentives appropriately align reward with company and individual performance, while maintaining a sensible level of remuneration within the market in which Wesfarmers competes for senior talent. Executives are rewarded based on criteria over which they have some control. Therefore the measures used to determine long term incentive awards vary between the Senior Executives and Executive Directors, as described at 4.3.1 and 4.3.2 below.

Long term incentive awards are provided through the Wesfarmers Long Term Incentive Plan ("WLTIP") under which participants receive shares in the company. The shares are awarded on a tax-deferred basis, at market price, with a three-year trading lock on each award whilst employed by the company. Participants forfeit their award if they leave the company prior to the end of the financial year in which the award is made, except in the case of retirement or redundancy.

4.3.1 Senior Executives

The Senior Executives are the heads and former heads of the business divisions of Wesfarmers. So that Wesfarmers' shareholders will receive over time a consistently high Total Shareholder Return and so that our senior executives are rewarded for their contribution to that return their long term incentives are based on Return On Equity ("ROE"). This is consistent with Wesfarmers planning, budgeting, project evaluation, operational performance measures and financial reporting which all use ROE as the key underlying internal measure.

An annual WLTIP award may be provided if a ROE hurdle is achieved. The hurdle in 2004/05 (for which amounts are disclosed in the remuneration tables) was set so that no incentive was payable if ROE was below the 40th percentile of a comparative group of companies (explained below) and payments increased pro-rata between the 40th and 60th percentiles. The company achieved a ROE of 22.1%, placing it at above the 80th percentile. From 2005/06 the hurdle is set at the 50th percentile, and using a comparison of five-year rolling-average performance. The award provided to executives at this level is 50 per cent of their FAR, which is in line with the median level of long term incentives paid in comparative companies. The group Managing Director has the discretion to provide a higher award (up to 100 per cent of FAR) in extraordinary circumstances, to recognise outstanding individual performance or to address critical retention issues. Such awards are provided within parameters established by the Nomination and Remuneration Committee. These changes have three key effects: a longer term measure of performance; a higher performance hurdle; and the opportunity to differentiate outstanding individual performers.

The comparative group used is the 50 largest companies by market capitalisation in the Standard & Poor's ASX 100 Index, as at 30 June. Incentive awards are determined after the preparation of the financial accounts each year. Awards are made once the financial performance has been verified by the company's external auditor and approved by the Board. Wesfarmers' 2004/05 performance against the comparative group, giving rise to the payments made during 2005/06, was 22.1% which exceeded the 60th percentile of the comparative group, which was 18.0%.

4.3.2 Executive Directors

The three Executive Directors are rewarded on a different basis to the Senior Executives. For a shareholder, Total Shareholder Return ("TSR") is considered to be the best performance measure over the period of investment. TSR is influenced by external market factors in addition to internal performance. For this reason, Wesfarmers rewards Executive Directors, whose role it is, amongst other things, to manage financial gearing and industry risk on the long term growth of the economic value of the company. A reward model, known as the Wesfarmers Long Term Incentive Award Determination ("the Award Determination"), has been developed to determine the long term incentive for Executive Directors. This Award Determination rewards the Executive Directors for the achievement of long term increases in shareholder wealth. A detailed summary of how the Award Determination is calculated is provided below. The Award is determined on an annual basis, and any incentive due is provided through the WLTIP, and the rules of that plan will apply to any shares awarded.

Award Determination

The long term incentive is based on Total Value Return (TVR). TVR is a variation of Total Shareholder Return (TSR) using an internal valuation of equity rather than market value and comprises the sum of two components.

Shareholder cash flow. This is the net annual aggregate of all cash flows to and from shareholders (eg dividends, capital returns and share buy backs, less rights issues and dividend reinvestments).

Directors' report

Wesfarmers Limited and its controlled entities

4 REMUNERATION OF EXECUTIVE DIRECTORS AND SENIOR EXECUTIVES (continued)

4.3 Long term incentive (continued)

4.3.2 Executive Directors (continued)

Investment value (IV). This represents the annual increment in value of total shareholders' equity calculated at the conclusion of each year of the LTI. It is determined by the following formula:

$$\frac{\text{Return on Equity}}{\text{Hurdle Rate}} \times \text{Weighted Average Equity for the Year}$$

where:

"Return on Equity" is the weighted average return on equity achieved over the period of the plan;

"Hurdle Rate" is a hurdle ROE (as a surrogate for the cost of equity) determined as the average of the Commonwealth Bond Ten Year Indicator rate (2005/06: 5.41%) plus a market risk premium of 6.6%; and

"Weighted Average Equity for the Year" is determined based on a monthly rolling average of the book value of equity. The book value of equity used in the calculation is capped based on the group's minimum level of gearing to ensure equity is not overstated as a result of low financial leverage (refer to 'Checks and Balances' below).

Determining the entitlement

Annual net shareholder cash flow increases and annual increments in IV are added to provide an annual net increase or decrease in shareholder wealth each year.

A proportion of that amount is credited or debited to an incentive pool which could be in credit or debit at the end of each year. Where the pool is in credit, a proportion of the amount will form the incentive entitlement for that year. The latter proportion will be up to 70%, except in the final year of employment, when 100% is payable. The balance each year is carried forward to the pool in the succeeding year. A cap on the amount payable is described below.

Form of entitlement

The incentive entitlement will be used to participate in the WLTIP, which provides for the award of shares on a deferred tax basis and includes a three year trading lock on each award whilst employed by the company. The shares are forfeited if the participant leaves the company prior to the end of the financial year for which the award is made, except in the case of retirement or redundancy. The entitlement in the final year of participation will be provided as a taxable cash payment.

Estimated amount of entitlement and entitlement caps

Given good performance the amount available annually under the incentive plan could be expected to be of a similar order of magnitude to each executive director's FAR. In any event, no more than two times FAR may be paid as an LTI in any year, except in the final year payment, which cannot exceed four times FAR.

Checks and Balances

A number of components of the Award Determination will ensure that the Award will align reward with shareholder expectations. These include:

- caps are applied to the calculation to ensure that there are no unintended benefits accruing if the financial gearing of the company is outside the agreed gearing limits;
- the weighted average equity for the year shall not be greater than that which would be determined consistent with the lower end of the group target gearing range (currently 50% net debt to equity);
- for the purpose of calculating ROE the equity shall not be less than that which would be determined consistent with the upper end of the gearing range (currently 75% net debt to equity); and
- the Award Determination must be reviewed at least every three years. In addition, if at any time the Board, acting in good faith and in the interest of shareholders, determines that it is necessary to amend the terms of the Award Determination as a result of the occurrence of an extraordinary circumstance, it may make those changes by written notice to the Executive Directors.

Because the eligibility period for participation in the WLTIP commences in 2006/07 the expense for the award to be provided in December will be charged in 2006/07. However, table 1(b) provides the notional share based award to enhance understanding of this incentive.

4.4 At risk remuneration

The proportion of at risk remuneration for Executive Directors and Senior Executives in 2005/06 varied between 52 per cent and 67 per cent of their maximum remuneration, being the sum of FAR, maximum annual incentive and maximum long term incentive.

Directors' report

Wesfarmers Limited and its controlled entities

4 REMUNERATION OF EXECUTIVE DIRECTORS AND SENIOR EXECUTIVES (continued)

4.5 Retention incentive

Each Executive Director and Senior Executive, other than the group Managing Director, is entitled to a retention incentive which accrues over the first five years of their employment contract and is payable on termination. This incentive is important to the retention strategy for key executives. The amount is determined by multiplying the payout factor by the total target remuneration at the time of termination. The payout factor increases proportionately from 0.2 after one year to 1.0 after five years. If the company initiates the termination, other than for reasons related to serious misconduct, the payout factor is 1.0. Total target remuneration means FAR plus target annual incentive (40 per cent of FAR) and target long term incentive (50 per cent of FAR). The amounts that would have been payable to the recipients (if those arrangements had applied for 2005/06) under these arrangements at 30 June 2006 total, in aggregate, \$8.7 million (2004: \$7.1 million). The increase in the accrued expense for the year is disclosed under "Post employment: other benefits" in Table 1(a).

5 REMUNERATION OF SENIOR MANAGERS

The remuneration structure for Senior Managers also has three main components: FAR, annual incentive and long term incentive.

5.1 Fixed annual remuneration

The base component of remuneration for Senior Managers is FAR. They may elect to have a combination of benefits, including superannuation and the provision of a motor vehicle, provided out of their FAR. The value of any of the non-cash benefits provided to them includes the costs of any fringe benefits tax payable by the company as a result of providing the benefit. The amount of FAR is approved for Senior Managers annually by the group Managing Director with consideration given to business and individual performance and market relativity.

FAR includes the minimum superannuation contribution required by law and is paid into a nominated superannuation fund. Senior Managers may choose to have the company contribute beyond the minimum level, by sacrificing part of their FAR. For Wesfarmers Superannuation Fund members a compulsory minimum level of life insurance is set, with the premiums being deducted from members' Superannuation Fund accounts.

This policy applied for both the current and prior year.

5.2 Annual incentive

The annual incentive is linked to group and individual business unit financial and operational performance. All Senior Managers are invited to participate in an annual incentive scheme which provides cash incentives where specified criteria are met; these include annual profit and return on capital targets, individual goals and, where appropriate, safety targets for business operations under their control. These measures were chosen because of their impact on return on equity, which is a key group measure of annual achievement of satisfactory return to shareholders. Senior Managers are rewarded for the performance of both the business they manage and the group as a whole. The specific measures and weightings vary for Senior Managers within the following ranges:

MEASURES	WEIGHTING
Company Financial	Minimum 0.5
<ul style="list-style-type: none"> • Group net profit after tax • Divisional earnings before interest and tax • Divisional return on capital 	
Individual objectives	Maximum 0.5
<ul style="list-style-type: none"> • Safety measures • Business unit financials • Non-financial objectives 	
Total	1.0

Financial targets are generally set so that participants receive a nil payment at 92.5 per cent of budget performance, increasing on a pro-rata basis to half of the maximum for achieving 100 per cent of budget and a maximum payment for achieving 110 per cent or more of budget. The annual divisional and group budgets are subject to Board approval.

Subject to reaching the minimum performance measures and hurdles and depending upon the seniority of the manager, a cash payment totalling between 0 per cent and 40 per cent of the executive's FAR is made. Incentive payments are determined after the preparation of the financial accounts each year, and performance against non-financial measures is reviewed, and subject to approval by, the appropriate business unit Managing Director or Executive Director.

This policy applied for both the current and prior year.

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Wesfarmers Limited and its controlled entities

5 REMUNERATION OF SENIOR MANAGERS (continued)

5.3 Long term incentive

Senior Managers are invited to participate in the WLTIP under which the participants receive shares in the company. The WLTIP provides for an award of shares on a tax-deferred basis, at market price, with a three-year trading lock on each award whilst employed by the company. Participants forfeit their award if they leave the company prior to the end of the financial year in which the award is made, except in the case of retirement or redundancy.

WLTIP awards may be made annually. They have a value up to a fixed amount based on the seniority of the role, subject to achievement of the ROE hurdle described at paragraph 4.3.1 above. In 2005/06 the hurdle was achieved. Awards are made once the financial performance has been verified by the company's external auditor and approved by the Board.

6 EMPLOYMENT CONTRACTS

6.1 Executive Directors and Senior Executives

A summary of the key employment contract terms for the Executive Directors and the Senior Executives is provided in the table below. The Executive Directors and the Senior Executives are employed by Wesfarmers Limited. Details of Mr Goyder's employment contract are disclosed separately below.

<i>Term</i>	<i>Notice period</i>	<i>Termination provisions</i>
<ul style="list-style-type: none"> Employment contracts do not have a specified term. 	<ul style="list-style-type: none"> Three months' notice of termination must be provided by either party. In the event of redundancy, the company must provide six months' notice. The company may terminate immediately for issues related to serious misconduct. 	<ul style="list-style-type: none"> A retention payment of up to one times total target remuneration may be made as described at 4.5 of this report. No further payment is provided in the event of redundancy.

6.2 Managing Director's contract - Mr Richard Goyder (appointed 13 July 2005)

Mr Richard Goyder was appointed group Managing Director and Chief Executive Officer on 13 July 2005. Key features of Mr Goyder's employment contract, details of which were contained in an ASX announcement on 12 July 2005, include:

6.2.1 Term

The contract commenced on 13 July 2005 and continues until either party terminates the contract.

6.2.2 Termination

The contract may be terminated by either party with 12 months' notice, or immediately by the company in the event of issues related to serious misconduct, breach of contract, bankruptcy or mental incapacity.

6.2.3 Remuneration

The remuneration comprises two components; FAR and long term incentive. It has no fixed term and contains no short term incentive component as the Board is of the view that the group Managing Director should be judged and rewarded based on performance over an extended period.

6.2.3.1 Fixed annual remuneration

The commencing FAR was \$2.25 million and will be reviewed annually by the Board, commencing October 2006.

From this amount the minimum statutory superannuation amount is deducted, and Mr Goyder may choose to salary sacrifice for additional superannuation, motor vehicle and other benefits.

A contractual non-monetary benefit ceased to be provided effective 30 November 2005 and the accrued benefit of \$129,807 was paid out to Mr Goyder in December 2005, which is reflected in the remuneration tables below.

6.2.3.2 Long term incentive

An explanation of Mr Goyder's long term incentive is provided above in section 4.3.

The long term incentive amount disclosed in Table 1(a) relates to the award provided under the WLTIP in December 2005, which was made in relation to the plan which applied to Mr Goyder in 2004/05 prior to his appointment as group Managing Director. The 2005/06 award will be made in December 2006 and the expense for that award will be reflected in the 2006/07 accounts. The pool accrual and accounting charge will be \$3.77 million, and the amount to be awarded to Mr Goyder in the form of shares will be \$2.64 million.

6.2.4 Termination benefit

Mr Goyder is entitled to a service payment which provides one year's FAR on cessation other than for reasons of serious misconduct or other grounds specified in the contract.

No other amount is payable on termination, other than pay in lieu of notice in the event that the company does not wish Mr Goyder to work out the required notice period.

Directors' report

Wesfarmers Limited and its controlled entities

7 DETAILS OF REMUNERATION

Table 1(a): Compensation of Key Management Personnel for the year ended 30 June 2006

DIRECTORS		SHORT TERM BENEFITS				POST EMPLOYMENT BENEFITS	
	YEAR	SALARY AND FEES \$	CASH BONUS \$	NON-MONETARY BENEFITS \$	OTHER \$	SUPER-ANNUATION BENEFITS \$	OTHER BENEFITS \$
C B Carter Director (non-executive)	2006	133,133	-	-	8,700	13,167	-
	2005	125,402	-	-	7,600	12,231	-
M A Chaney Managing Director and Chief Executive Officer (retired 12 July 2005)	2006	41,587	-	-	-	-	34,951
	2005	1,291,500	-	208,254	2,507,600	-	75,000
P A Cross Director (non-executive)	2006	105,740	-	-	8,700	40,560	-
	2005	124,043	-	-	7,600	13,590	-
T R Eastwood Chairman (non-executive)	2006	390,299	-	-	8,700	38,601	-
	2005	367,107	-	-	7,600	35,793	-
R L Every Director (non-executive, appointed 1 February 2006)	2006	51,606	-	-	3,625	5,186	-
	2005	-	-	-	-	-	-
T J Flugge Director (non-executive, resigned 3 July 2006)	2006	149,668	-	-	8,700	16,632	-
	2005	142,043	-	-	7,600	15,590	-
L A Giglia Director (non-executive)	2006	100,217	-	-	8,700	46,083	-
	2005	98,391	-	-	7,600	39,242	-
R J B Goyder Managing Director and Chief Executive Officer (appointed 13 July 2005)	2006	2,081,013	-	100,103	138,507	38,000	445,000
	2005	772,621	386,270	86,516	7,600	38,500	475,000
J P Graham Director (non-executive)	2006	230,050	-	-	8,700	-	-
	2005	205,900	-	-	7,600	-	-
R D Lester Director (non-executive)	2006	140,670	-	-	8,700	15,630	-
	2005	133,043	-	-	7,600	14,590	-
C Macek Director (non-executive)	2006	142,233	-	-	8,700	14,067	-
	2005	134,502	-	-	7,600	13,131	-
D A Robb Managing Director, Wesfarmers Energy & Executive Director	2006	730,093	-	58,493	8,700	100,587	281,200
	2005	656,364	322,696	65,168	7,600	11,439	79,800
G T Tilbrook Finance Director (appointed 13 July 2005)	2006	797,029	213,600	80,711	8,700	12,139	281,200
	2005	609,925	301,697	94,750	292,984	37,534	79,800
D C White Director (non-executive)	2006	123,410	-	-	8,700	52,890	-
	2005	117,863	-	-	7,600	49,770	-

Directors' report

Wesfarmers Limited and its controlled entities

7 DETAILS OF REMUNERATION (continued)

Table 1(b): Additional disclosure, not audited

LONG-TERM OTHER LONG TERM BENEFITS \$	SHARE BASED PAYMENTS VALUE OF SHARES \$	TERMINATION BENEFITS TERMINATION BENEFITS \$	TOTAL \$	TOTAL PERFORMANCE RELATED %	NOTIONAL SHARE BASED AWARDS VALUE OF SHARES \$	NOTIONAL TOTAL REMUNERATION \$	NOTIONAL TOTAL PERFORMANCE RELATED %
-	-	-	155,000	0%	-	155,000	0%
-	-	-	145,233	0%	-	145,233	0%
-	-	-	76,538	0%	-	76,538	0%
-	2,045,514	-	6,127,868	33.4%	-	4,082,354	0%
-	-	-	155,000	0%	-	155,000	0%
-	-	-	145,233	0%	-	145,233	0%
-	-	-	437,600	0%	-	437,600	0%
-	-	-	410,500	0%	-	410,500	0%
-	-	-	60,417	0%	-	60,417	0%
-	-	-	-	-	-	-	-
-	-	-	175,000	0%	-	175,000	0%
-	-	-	165,233	0%	-	165,233	0%
-	-	-	155,000	0%	-	155,000	0%
-	-	-	145,233	0%	-	145,233	0%
-	475,000	-	3,277,623	14.5%	3,770,000	6,572,623	57.4%
-	-	-	1,766,507	21.9%	475,000	2,241,507	38.4%
-	-	-	238,750	0%	-	238,750	0%
-	-	-	213,500	0%	-	213,500	0%
-	-	-	165,000	0%	-	165,000	0%
-	-	-	155,233	0%	-	155,233	0%
-	-	-	165,000	0%	-	165,000	0%
-	-	-	155,233	0%	-	155,233	0%
-	371,000	-	1,550,073	23.9%	1,890,000	3,069,073	61.6%
-	-	-	1,143,067	28.2%	371,000	1,514,067	45.8%
-	371,000	-	1,764,379	33.1%	1,890,000	3,283,379	64.1%
-	-	-	1,416,690	21.3%	371,000	1,787,690	37.6%
-	-	-	185,000	0%	-	185,000	0%
-	-	-	175,233	0%	-	175,233	0%

Directors' report

Wesfarmers Limited and its controlled entities

7 DETAILS OF REMUNERATION (continued)

Table 1(a): Compensation of Key Management Personnel for the year ended 30 June 2006 (continued)

EXECUTIVES	YEAR	SHORT TERM BENEFITS				POST EMPLOYMENT BENEFITS	
		SALARY AND FEES \$	CASH BONUS \$	NON-MONETARY BENEFITS \$	OTHER \$	SUPER-ANNUATION BENEFITS \$	OTHER BENEFITS \$
T M Bowen Managing Director, Industrial & Safety Division (appointed 24 October 2005)	2006	426,620	49,315	19,401	5,800	17,262	155,540
	2005	-	-	-	-	-	-
R J Buckley Chief Executive Officer, Insurance Division	2006	521,853	73,200	58,637	8,700	19,510	281,067
	2005	438,172	240,402	72,253	7,600	23,880	223,217
P J C Davis Chief Operating Officer, Home Improvement Division	2006	602,646	214,382	16,107	8,700	33,250	278,302
	2005	568,846	139,776	30,505	7,600	20,500	250,763
R M Denby Managing Director, Industrial & Safety Division (resigned 30 November 2005)	2006	201,854	-	26,709	3,625	7,950	11,500
	2005	503,565	85,693	63,811	7,600	31,505	241,056
J C Gillam Managing Director, Hardware Division	2006	702,967	202,896	172,786	8,700	36,754	416,708
	2005	593,881	249,757	127,526	7,600	36,754	388,892
K D Gordon Managing Director, Chemical & Fertilisers Division	2006	428,089	91,800	49,321	8,700	38,857	208,507
	2005	328,070	176,859	59,150	6,967	34,538	157,324
Total Remuneration:	2006	8,100,777	845,193	582,268	282,057	547,125	2,393,975
	2005	7,211,238	1,903,150	807,933	2,921,551	428,587	1,970,852

Directors' report

Wesfarmers Limited and its controlled entities

7 DETAILS OF REMUNERATION (continued)

Table 1(b): Additional disclosure, not audited
(continued)

LONG-TERM OTHER LONG TERM BENEFITS \$	SHARE BASED PAYMENTS VALUE OF SHARES \$	TERMINATION BENEFITS TERMINATION BENEFITS \$	TOTAL \$	TOTAL PERFORMANCE RELATED %	NOTIONAL SHARE BASED AWARDS VALUE OF SHARES \$	NOTIONAL TOTAL REMUNERATION \$	NOTIONAL TOTAL PERFORMANCE RELATED %
-	-	-	673,938	7.3%	600,000	1,273,938	51.0%
-	-	-	-	-	-	-	-
-	268,306	-	1,231,273	27.7%	457,500	1,420,467	37.4%
-	2,844	-	1,008,368	24.1%	271,150	1,276,674	40.1%
-	312,000	-	1,465,387	35.9%	327,500	1,480,887	36.6%
-	-	-	1,017,990	13.7%	312,000	1,329,990	34.0%
-	-	785,094	1,036,732	0%	-	1,036,732	0%
-	63,640	-	999,870	15%	63,640	996,870	15.0%
-	333,900	-	1,874,711	28.6%	775,000	2,315,811	42.2%
-	70,000	-	1,474,410	21.7%	333,900	1,738,310	33.6%
-	224,077	-	1,049,351	30.1%	382,500	1,207,774	39.3%
-	8,141	-	771,049	24.0%	233,200	996,108	41.2%
-	2,355,283	785,094	15,891,772	-	10,092,500	23,628,989	-
-	2,190,139	-	17,433,450	-	2,430,890	17,674,201	-

Notes

All directors and executives have held their position for the entire reporting period, unless otherwise indicated.

James Graham's fees are paid to Gresham Partners Limited for participation on the boards of Wesfarmers Limited, Wesfarmers Federation Insurance and Lumley General Insurance. Of the salaries and fees above, \$165,000 (2005: \$153,500) relates to the parent company only.

'Retirement Benefits' include the accrual towards the Retention/Service Incentive payable under the Executive Employment Contracts. The unaudited additional disclosure of "Notional Share Based Awards", "Notional Total Remuneration" and "Notional Performance Related %" is provided to match the award with the TSR performance base for that period. The amount to be awarded under the WLTIP in December 2006 will be expensed in the 2007 year for accounting purposes in line with the service period and vesting conditions, but is calculated based on the TSR performance of the Group for the 2006 year. In the opinion of the directors this additional disclosure enhances understanding the remuneration policies of the Group.

The unaudited "Notional Share Based Awards" for Messrs Goyder and Tilbrook for 2006 represent amounts to be added to their pool balance. The actual award payment during the 2007 year will be 70% of the amount shown, with the balance of the pool being carried forward.

Directors' report

Wesfarmers Limited and its controlled entities

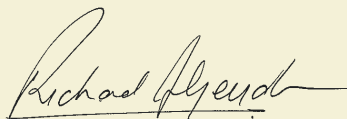
8 INDEPENDENT AUDIT OF REMUNERATION REPORT

Required disclosures pursuant to AASB 124: Related Party Disclosures, included in sections 1 - 7 (excluding Table 1(b)) to this Remuneration Report have been audited by Ernst & Young.

This Directors' Report, including the Remuneration Report, is signed in accordance with a resolution of the directors of Wesfarmers Limited.



T R EASTWOOD
Chairman
Brisbane, 12 September 2006



R J B GOYDER
Managing Director

Directors' declaration

Wesfarmers Limited and its controlled entities

In accordance with a resolution of the directors of Wesfarmers Limited, we state that:

1. In the opinion of the directors:
 - (a) the financial statements, notes and the additional disclosures included in the directors' report designated as audited, of the company and of the consolidated entity are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2006 and of their performance for the year ended on that date; and
 - (ii) complying with Accounting Standards and Corporations Regulations 2001; and
 - (b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.
2. This declaration has been made after receiving the declaration required to be made to the directors in accordance with section 295A of the Corporations Act 2001 for the financial period ended 30 June 2006.
3. In the opinion of the directors, as at the date of this declaration, there are reasonable grounds to believe that the members of the closed group comprising the company and the controlled entities marked "+" as identified in note 30 will be able to meet any obligations or liabilities to which they are or may become subject to, by virtue of the deed of cross guarantee referred to in note 31.

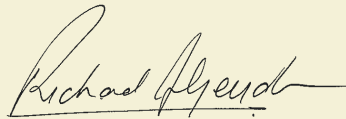
On behalf of the Board



T R EASTWOOD

Chairman

Brisbane, 12 September 2006



R J B GOYDER

Managing Director

Independent audit report

to members of Wesfarmers 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 Wesfarmers Limited (the company) and the consolidated entity, for the year ended 30 June 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 131 to 142 forming part 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
- 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 included 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 Wesfarmers Limited is in accordance with:
 - (a) the Corporations Act 2001, including:
 - (i) giving a true and fair view of the financial position of Wesfarmers Limited and the consolidated entity at 30 June 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 131 to 142 forming part of the Directors' Report comply with Accounting Standard AASB 124 Related Party Disclosures.

ERNST & YOUNG

G H MEYEROWITZ
Partner

Perth, 12 September 2006

Supplementary statement of coal resources and reserves

as at 30 June 2006

COAL RESOURCES AND RESERVES

The table below details the coal resources and reserves of the Wesfarmers group, as at 30 June 2006.

MINE	OWNERSHIP	BENEFICIAL INTEREST	LOCATION OF TENEMENTS	MINING METHOD	COAL TYPE	COAL RESERVES TONNES (MILLIONS)			COAL RESOURCES TONNES (MILLIONS)			
						PROVED	PROBABLE	TOTAL	MEASURED	INDICATED	INFERRED	TOTAL
Premier	Wesfarmers Premier Coal Limited	100%	Collie, Western Australia	Open cut	Steaming	104	21	125	296	52	8	356
Curragh	Wesfarmers Curragh Pty Ltd	100%	Bowen Basin, Queensland	Open cut	Metallurgical and Steaming	195	12	207	374	132	164	670
Bengalla	Wesfarmers Bengalla Limited	40%	Hunter Valley, New South Wales	Open cut	Steaming	45	30	75	31	44	0	75

Premier and Curragh coal resources include coal reserves whereas Bengalla coal resources are in addition to coal reserves.

CHARACTERISTICS OF COAL RESOURCES AND RESERVES

PREMIER

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by open cut methods, currently to depths less than 140 metres below the ground surface.

CURRAGH

The coal is bituminous and is used for power generation (principally domestic) and metallurgical processes (primarily steel production overseas). The resource is contained in five seams of varying thickness and quality characteristics. Coal is produced from all of these seams. Coal is extracted by open cut methods to depths of less than 100 metres below the ground surface, and processed through a wash plant using dense medium cyclones and froth flotation.

BENGALLA

The coal is bituminous and used in domestic and export markets for power generation. Coal is extracted from up to eight seams ranging in thickness from 1.5m up to 13m. These seams produce high yielding, high energy, generally low sulphur coals which are well suited to export and domestic power generation. The seams occur at relatively shallow depths and dip gently to the west. Coal is extracted by open cut methods.

JORC CODE COMPLIANCE

The statement of coal resources and reserves presented in this report has been produced in accordance with the Australasian Code of reporting of Exploration Results, Mineral Resources and Ore Reserves, December 2004 (the 'JORC Code').

The information in this report relating to coal resources and reserves is based on information compiled by Competent Persons (as defined in the JORC Code, and listed below). All Competent Persons have at the time of reporting, sufficient experience relevant to the style of mineralisation and type of deposit under consideration and to the activity they are undertaking to qualify as a Competent Person as defined by the JORC Code. Each Competent Person consents to the inclusion in this report of the matters based on their information in the form and context in which it appears.

All of the coal resource information is inclusive of coal reserves unless otherwise stated.

COMPETENT PERSONS

- PREMIER** – Mr David Chapman, a full time Employee of Wesfarmers Premier Coal Limited, a wholly owned subsidiary of Wesfarmers Limited.
Member AusIMM
- CURRAGH** – Mr Barry Lay, a full time Employee of Curragh Queensland Mining Pty Ltd, a wholly owned subsidiary of Wesfarmers Curragh Pty Ltd.
Member AusIMM
- BENGALLA** – Mr Mal Scott, a full time employee of Rio Tinto Coal Australia Pty Limited.
Member AusIMM
- Mr Ken Preston, a full time employee of Rio Tinto Coal Australia Pty Limited.
Fellow AusIMM

Shareholder information

Wesfarmers Limited and its controlled entities

SHAREHOLDER INFORMATION

Wesfarmers Limited and its controlled entities

SUBSTANTIAL SHAREHOLDERS

The Capital Group Companies Inc gave notice on 19 April 2006 that it had ceased to be a substantial shareholder.

VOTING RIGHTS

Ordinary fully-paid shares, carry voting rights of one vote per share.

DISTRIBUTION OF MEMBERS AND THEIR HOLDINGS

SIZE OF HOLDINGS	NUMBER OF ORDINARY SHAREHOLDERS
1 - 1,000	106,667
1,001 - 5,000	38,236
5,001 - 10,000	4,658
10,001 - 100,000	2,922
100,001 - and over	134
	152,617

There were 773 holders holding less than a marketable parcel of ordinary shares.

Less than two per cent of shareholders have registered addresses outside Australia.

Shareholder information

Wesfarmers Limited and its controlled entities

TWENTY LARGEST SHAREHOLDERS

The twenty largest shareholders of ordinary shares on the company's register as at 12 September 2006 were:

NAME	NUMBER OF SHARES	% OF ISSUED CAPITAL(*)
National Nominees Limited	30,227,167	8.00
J P Morgan Nominees Australia Limited	27,241,417	7.21
Westpac Custodian Nominees Limited	17,489,281	4.63
ANZ Nominees Limited (Cash Income A/C)	8,702,917	2.30
Citicorp Nominees Pty Limited	7,488,625	1.98
Australian Foundation Investment Company Limited	4,905,928	1.30
RBC Dexia Investor Services Australia Nominees Pty Limited (PIPOOLED A/C)	4,833,615	1.28
Cogent Nominees Pty Limited	4,299,803	1.14
Argo Investments Limited	2,535,000	0.67
HSBC Custody Nominees (Australia) Limited	2,429,225	0.64
Queensland Investment Corporation	2,275,782	0.60
AMP Life Limited	2,149,181	0.57
Merrill Lynch (Australia) Nominees Pty Ltd	1,746,292	0.46
Citicorp Nominees Pty Limited (CFS WSLE 452 Aust Share A/C)	1,718,405	0.45
Perpetual Trustee Company Limited	1,372,683	0.36
Australian Executor Trustees Limited (No 1 Account)	1,326,335	0.35
Australian Reward Investment Alliance	1,276,227	0.34
Milton Corporation Limited	1,192,242	0.32
RBC Dexia Investor Services Australia Nominees Pty Limited (MLCI A/C)	1,129,885	0.30
Citicorp Nominees Pty Limited (CFS WSLE Geared Shr Fnd A/C)	911,992	0.24

* The percentage holding of the twenty largest shareholders was 33.14.

Five year financial history

Wesfarmers Limited and its controlled entities

All figures in \$000 unless shown otherwise

	AIFRS 2006	AIFRS 2005	AGAAP 2005	AGAAP 2004	AGAAP 2003	AGAAP 2002
Summarised profit and loss						
Sales revenue	8,818,291	8,101,112	8,047,045	7,441,539	7,425,836	7,192,537
Other operating revenue	40,510	57,519	143,344	965,953	327,538	193,119
Operating revenue	8,858,801	8,158,631	8,190,389	8,407,492	7,753,374	7,385,656
Operating profit before depreciation, net interest paid and income tax	1,597,363	1,222,808	1,226,702	1,161,558	1,065,379	976,722
Depreciation and amortisation (ex goodwill)	(283,467)	(188,861)	(187,103)	(193,848)	(206,240)	(212,893)
Net interest paid	(81,747)	(67,313)	(68,865)	(50,483)	(65,266)	(77,188)
Income tax expense	(362,713)	(264,797)	(261,430)	(267,062)	(226,283)	(193,115)
	869,436	701,837	709,304	650,165	567,590	493,526
Outside equity interests	-	-	(574)	4,535	290	(263)
Operating profit after income tax before goodwill amortisation	869,436	701,837	708,730	654,700	567,880	493,263
Goodwill amortisation	-	-	(90,430)	(85,536)	(85,734)	(79,340)
Operating profit after income tax attributable to members of Wesfarmers Limited	869,436	701,837	618,300	569,164	482,146	413,923
Capital and dividends						
Ordinary shares on issue (number)	378,042	378,042	378,042	376,354	376,536	372,291
Paid up ordinary capital	1,901,522	1,901,164	2,014,799	2,345,633	3,159,466	3,027,008
Dividend per ordinary share (cents fully franked)	215	180	180	140	127	111
Financial performance before goodwill amortisation						
Earnings per ordinary share (weighted average) cents	235.6	192.0	187.8	174.2	150.8	138.2
Earnings per ordinary share growth	22.7%	10.2%	7.8%	15.6%	9.1%	43.7%
Return on average ordinary shareholders' funds	31.1%	25.4%	22.1%	18.5%	15.8%	15.7%
Income tax expense (effective rate)	29.4%	27.4%	26.9%	29.1%	28.5%	28.1%
Financial performance after goodwill amortisation						
Earnings per ordinary share (weighted average) cents	235.6	192.0	163.9	151.5	128.0	116.0
Earnings per ordinary share growth	22.7%	26.8%	8.2%	18.3%	10.4%	25.6%
Return on average ordinary shareholders' funds	31.1%	25.4%	19.6%	16.2%	13.3%	13.2%
Net interest cover - cash basis (times)	13.8	12.4	12.4	15.8	14.2	10.3
Income tax expense (effective rate)	29.4%	27.4%	29.7%	39.5%	32.2%	31.8%
Financial position as at 30 June						
Total assets	7,515,147	7,152,769	7,314,348	7,271,400	6,418,102	6,612,721
Total liabilities	4,349,148	4,410,568	4,233,329	3,940,875	2,653,025	3,202,644
Net assets	3,165,999	2,742,201	3,081,019	3,330,525	3,765,077	3,410,077
Outside equity interests in controlled entities	52	52	(1,659)	(2,087)	6,597	10,391
Shareholders' equity attributable to members of Wesfarmers Limited	3,165,947	2,742,149	3,082,678	3,332,612	3,758,480	3,399,686
Net tangible asset backing per ordinary share	4.59	3.47	4.51	4.94	5.95	4.83
Net financial debt to net tangible assets	86.0%	135.1%	100.9%	81.5%	39.7%	73.2%
Net financial debt to equity	46.1%	62.9%	55.8%	45.5%	23.7%	38.8%
Total external liabilities/total assets (excluding project financing)	57.8%	61.6%	57.9%	54.2%	40.3%	47.3%
Stock market capitalisation as at 30 June	13,356	15,125	15,125	11,065	9,526	10,126

Excludes significant items:

In 2003 - Sale of Girrah coal deposit

In 2004 - Sale of rural services business

In 2006 - Sale of ARG



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