Wesfarmers Limited
ABN 28 008 984 049
NEWS

15 August 2006

2006 FULL YEAR RESULT

The directors of Wesfarmers Limited today announced a record net profit of $1.05 billion for the year ended 30 June 2006. The result includes a pre-tax profit of $235 million (after tax $178.7 million) from the sale of the Australian Railroad Group (ARG) which was completed in June 2006. Normalised to exclude the profits on the sale of ARG, the net profit was $869.4 million, which represents an increase of 23.9 per cent on the $701.8 million (re-stated for AIFRS) in 2004/05. Operating revenue was $8.9 billion compared to $8.2 billion in 2004/05.

The record earnings were mainly attributable to higher export coal prices and increased volumes from the Curragh coal mine in Queensland. Increased earnings were also recorded by the home improvement business with reduced contributions from chemicals and fertilisers, insurance and the industrial and safety products businesses.

The full year result included profit before tax of $4.9 million on the sale of non-current assets, compared to $8.7 million last year. It also included, for the first time, the full cost of shares issued to employees under the employee share plan, of $27.1 million before tax.

Excluding the impact of the ARG sale, earnings per share were $2.36, an increase of 22.7 per cent on the $1.92 recorded in the previous corresponding year. Operating cash flow per share was $2.99, well above the $2.48 recorded last year.

Final Dividend

The directors have declared a fully-franked dividend of $1.50 per share which will be paid on 4 September 2006. This lifts the total dividend for the year to $2.15 per share compared to last year's $1.80, an increase of 19.4 per cent. The total dividend for the year represents 93.5 per cent of net profit after tax, excluding the profit from the sale of ARG.

Finance

Net operating cash flows for the year for the group's activities were $1.13 billion. The replacement and expansion capital expenditure was $614.8 million, which was less than budgeted primarily due to timing issues.

The group's ratio of net debt to equity at 30 June 2006 was 46.1 per cent. The rolling 12 month cash interest cover was a very strong 14 times. The group's strong financial position makes it well placed to fund potential acquisitions.

The directors have decided to continue the suspension of the company's dividend investment plan.

In accordance with the requirements of the Australian equivalent to the International Financial Reporting Standards (AIFRS) adopted by the company on 1 July 2005, the financial statements, including all comparative numbers, have been prepared in accordance with these new standards.

Energy

Operating revenue from the group's energy business increased to $1.68 billion, 44.3 per cent above last year with record earnings before interest and tax of $627.2 million. This was 97.8 per cent higher than the $317.1 million earned last year. Increased export coal sales tonnages and prices from the Curragh mine in Queensland were major contributors to the improved result in 2005/06.

Coal

Total sales volumes from Curragh of 8.6 million tonnes (6.0 million metallurgical and 2.6 million steaming) were 22.2 per cent above those achieved in 2004/05. Earnings for the year were 210.1 per cent above last year's, due to higher metallurgical coal volumes and prices, partly offset by higher production and tonnage-related costs. Rail system and port capacity constraints had an adverse impact on export sales.

The full year highlights included completion of the civil works associated with the new Curragh North coal development, coupled with 3.2 million tonnes of coal exposed and mined from Curragh North during the year, which underpinned a 31.6 per cent increase in metallurgical coal sales volumes. Total project capital expenditure associated with the development remains within the budgeted $360 million. The 20 kilometre long conveyor and coal handling system to transport coal to Curragh from Curragh North is 80 per cent complete and is expected to be commissioned in the fourth quarter of this calendar year. Annual price negotiations concluded in April, with Curragh maintaining, and in many cases extending, long-term supply contracts with leading steelmakers in Asia and Europe.

Premier Coal in Western Australia achieved steaming coal sales volumes of 3.7 million tonnes in 2005/06, 12.1 per cent higher than last year. Earnings for the year were 7.9 per cent higher than last year's due to the higher sales volumes.

Premier Coal was successful in its bid to supply Verve Energy's long-term coal requirements for its coal-fired power stations and deliveries under the new arrangements commenced in April 2006. Construction of a 50,000 tonne per annum char demonstration plant is underway and is expected to be completed in December 2006.

Wesfarmers holds a 40 per cent interest in the Bengalla coal mine in New South Wales. Joint venture steaming coal sales volumes of 5.3 million tonnes (4.3 million export and 1.0 million domestic) were slightly lower than last year's due to port restrictions, but earnings increased 6.2 per cent largely as a result of continued high export sales prices.

Gas and Power

Kleenheat Gas' overall sales volumes were slightly above last year's with growth in traditional bulk and some cylinder markets being largely offset by a reduction in autogas sales volumes. Earnings were below last year's, the result of record high international LPG prices and higher distribution costs which adversely impacted margins.

Wesfarmers LPG achieved export volumes of 38,532 tonnes, 80.6 per cent below last year's. This was due to a combination of lower LPG content in the Dampier to Bunbury Natural Gas Pipeline and higher sales to the domestic market. Earnings were 13.3 per cent lower than those recorded in 2004/05, due to the lower export sales volumes, partially offset by high export prices and increased domestic sales.

Air Liquide WA, in which Wesfarmers holds a 40 per cent interest, achieved earnings above expectations following better than expected contributions from its air separation unit operations.

The performance of Energy Generation (enGen) was better than last year, due mainly to part-year contributions from new power stations supplying the Western Australian towns of Gascoyne Junction, Laverton and Menzies together with expansions of existing power stations supplying the Mt Magnet and Wodgina mines.

During the year Kleenheat implemented on-board technology in cylinder delivery trucks to improve distribution and processing efficiency and expanded the small LNG plant at Kwinana to meet increased customer demand. Air Liquide WA successfully completed the first full-year of commercial operations of the new $45 million air separation unit at Kwinana in Western Australia, which supplies oxygen and nitrogen to the adjacent HIsmelt pig iron project. Energy Generation commissioned three new power stations and commenced construction of the first of five power stations for the Aboriginal and Remote Community Power Supply Project.

Outlook

The export coal businesses will benefit from firm demand and continuing above-average prices although revenue will be lower than in 2005/06 as prices come off their record highs. Achievement of increased sales volumes in the near term will require satisfactory levels of performance from rail and port infrastructure.

Buoyant conditions in the mining sector generally and high fuel prices are expected to maintain upward pressure on costs.

Earnings from the gas businesses will remain dependent upon international LPG prices and production volumes from the Kwinana extraction plant.

Continued progress is anticipated on a number of growth opportunities including LNG and char.

Home Improvement

Operating revenue for the Bunnings home improvement business increased to $4.28 billion, 5.2 per cent higher than the previous year. Earnings before interest and tax of $420.5 million were 1.1 per cent higher than last year's. The result includes $15.5 million of costs associated with the employee share plan which are required to be expensed, and an additional net $7.5 million in refurbishment expenses associated with the previously announced accelerated network refurbishment programme. Adjusted for these costs, the comparative growth in earnings before interest and tax was 6.5 per cent over last year.

Cash sales growth for the full year was 7.1 per cent, with underlying store-on-store cash sales growth of 5.1 per cent. Pleasing results were recorded in New Zealand and Western Australia and, in the second half, in New South Wales and Queensland. Difficult trading conditions in most Australian regions across the first four months of the period were followed by better conditions for the balance of the year. In the second half, total store-on-store cash sales growth of 7.5 per cent was achieved.

Trade sales for the full year grew modestly by 1.5 per cent against the previous year. Market conditions were mixed with better results in Western Australia, New South Wales and Victoria.

In 2005/06, 12 new warehouse stores and three smaller format stores opened. Rationalisation within the network resulted in the closure of one warehouse store and a number of smaller format stores. At year end there were 142 warehouse stores and 84 smaller format stores operating across Australia and New Zealand.

During the year 32 stores were upgraded as part of the ongoing store network refurbishment programme which brings current building and merchandising standards into the older parts of the network. This included 23 warehouse stores and nine smaller format stores, with eight of the latter also being re-badged ‘Bunnings’ as part of the rebranding of the Benchmark store network in New Zealand. The refurbishment programme supports enhancements and expansions to the range of products and services offered. Pleasing trading results have been recorded in stores following completion of this work.

The establishment of a network of stand-alone trade distribution sites to service high-volume builder customers continued and, at year end, seven trade distribution sites and three trade-focused small format stores were in operation. These sites relieve the store network of high volume delivered-to-site business, freeing up space in-store and allowing teams to focus on pick-up trade business. The Hudsons’ frame and truss business which was acquired in March 2006 has now been successfully integrated, with rationalisation costs of around $2 million absorbed in that process.

Solid progress was made throughout the year on strategies to deliver greater efficiencies and more effective operations within the business. Highlights included lower shrinkage levels, better inventory disciplines and enhancements to the supply chain.

Outlook

The outlook for the home improvement business in 2006/07 is for continued retail sales growth and a modest improvement from the trade business.

New warehouse development is forecast to continue at between 10 to 14 warehouse stores per year and the accelerated store network refurbishment programme will continue with plans to upgrade around 30 stores in 2006/07.

Insurance

The division’s principal businesses are Lumley Australia (“LGA”), Lumley New Zealand (“LGNZ”) and Wesfarmers Federation Insurance (“WFI”). The insurance division achieved operating revenue of $1.12 billion and earnings before interest and tax of $124.8 million. The divisional insurance margin was 14.9 per cent and the combined operating ratio (“COR”) was 88.1 per cent. This compares with the previous corresponding period when the operating revenue was $1.13 billion and earnings before interest and tax $134.9 million whilst the divisional insurance margin was 17.6 per cent and the COR 86.1 per cent.

All businesses recorded solid results despite increasingly competitive conditions and pressure on margins.

LGA reported a satisfactory result whilst further enhancing its position in niche markets and strengthening risk management and compliance. The insurance margin fell as claim ratios increased, largely as a result of several significant weather events including Cyclone Larry and the Molong Floods. Net Earned Premium (“NEP”) increased by 4.5 per cent compared with the previous corresponding period.

LGNZ achieved a record result and continued to receive excellent support from New Zealand based intermediaries. NEP for the full year increased by 11.9 per cent compared with the previous corresponding period due to business growth and reductions in premium ceded to reinsurers. The insurance margin decreased to 13.0 per cent compared with 14.2 per cent in the previous corresponding period, due to higher claims activity.

WFI built on its consistently good results of recent years and continued improvement in its national distribution network, although it was adversely affected by several significant events, including Cyclone Larry and the Grampians bush fires. The insurance margin decreased to 15.7 per cent compared with 18.0 per cent in the previous corresponding period. NEP increased by 6.0 per cent over the previous year.

Outlook

While satisfactory earnings are expected for the current year, they are likely to be constrained by competitive pressures and a return to more typical claims levels.

Industrial and safety

Operating revenue for the industrial and safety division for the 2005/06 year of $1.18 billion was in line with revenue recorded last year. Earnings before interest and tax of $96.8 million were 11.0 per cent below last year’s following impacts associated with the restructuring of the division including redundancy costs, inventory write-downs and provisions for long term uncollected debt. The year's result was also adversely affected by the inclusion of employee share plan costs, as well as difficult economic and trading conditions in New Zealand, including exchange rate factors, which offset earnings growth in the Australian businesses.

Capital employed of $769 million was down 4.0 per cent on 2004/05 due to working capital improvement of 7.0 per cent from focussed initiatives introduced across all businesses, specifically relating to inventory and customer payment collection.

Blackwoods had an improved year, with operational sales and earnings growth aided by improved delivery performance as well as solid growth from the resource sector in Queensland and Western Australia. Results also improved in New South Wales, despite slowing construction sales, while trading conditions were subdued in Victoria and South Australia, largely as a result of a slowing automotive sector.

Protector Alsafe’s earnings were ahead of last year’s in all regions despite strong pressure on margins from an increasingly competitive environment. Motion Industries' result was marginally ahead of last year’s, while Mullings Fasteners’ was slightly down. Both businesses showed improvement in the second half.

New Zealand-based businesses experienced difficult market conditions particularly in the second half due to a slowing economy and depreciation of the New Zealand dollar. While Packaging House performed well, the specialist safety businesses and Blackwoods Paykels delivered disappointing results for the year. Following restructuring activities, particularly in Blackwoods Paykels, underlying earnings did improve towards the end of the year.

The division was restructured into distinct national business units in February 2006, reflecting business trading differences and the need to tailor service offerings to respective customer bases. As part of restructuring, support staff efficiencies were achieved which resulted in the reduction of in excess of 150 employees, mainly during the last quarter.

Following the restructure, each business has developed and begun implementing an improvement programme covering sales effectiveness, procurement and logistics processes, and working capital management.

Outlook

The outlook is mixed with benefits from continued strong demand from mining and construction and infrastructure sectors in Australia but ongoing pressure on the manufacturing sector and weaker market conditions in New Zealand.

The division is expecting benefits over time from recent restructuring activities and strategic improvement programmes.

Chemicals and fertilisers

Operating revenue of $595.2 million was recorded by CSBP, the chemicals and fertilisers division, representing a 1.4 per cent increase over last year's revenue. Earnings before interest and tax of $81.4 million were 9.0 per cent below last year's $89.4 million.

Chemicals

Most of the company's chemicals activities performed well during the year, with increased volumes and revenues in ammonium nitrate and sodium cyanide, as well as record production of ammonium nitrate. This was offset by reduced revenues and volumes from the ammonia business which was adversely affected by gas supply curtailments throughout the year. Approximately 15,000 tonnes of ammonia production was lost as a result of those curtailments.

The contribution from CSBP's joint venture sodium cyanide operations was higher than last year's, reflecting improved margins. Return on capital also improved through a reduction in consignment stocks of solid sodium cyanide. Although there are encouraging signs for this business, further improvement in performance is required.

The ammonium nitrate business also achieved improved earnings through record production and the renewal of short term contracts at improved prices. The majority of CSBP's ammonium nitrate production continues to be sold under long term contractual arrangements.

During the year board approval was given to the expansion of CSBP's ammonium nitrate production capacity at Kwinana, in Western Australia. The project will double current production volumes, with the increased capacity to be directed towards resource sector use and as feedstock for the manufacture of the nitrogenous liquid fertiliser, Flexi-N. Finalisation of design and regulatory requirements together with updated estimates has resulted in an increase in projected capital expenditure for the project of around $60 million to a total of $260 million.

CSBP's earnings from its 50 per cent share in Queensland Nitrates ammonium nitrate joint venture were lower than last year's due to a major maintenance shutdown in October 2005 and the need to import high cost ammonium nitrate to meet customer requirements. The performance of this business improved in the second half.

Fertilisers

Total fertiliser sales of 959,000 tonnes represented a 14.5 per cent decrease compared to last year. Rainfall in June in Western Australia was the lowest on record and this had a significant impact on planting of winter crops.

The poor opening to the 2006 season adversely affected fertiliser contribution for the year with June sales being significantly lower than expected. Liquid fertiliser sales grew slightly compared to last year.

Outlook

The effects of the poor start to the 2006 growing season may include higher than normal carry over stocks of fertiliser on farm. Strong demand from the resources sector for CSBP's chemical products should continue.

Other operations

Australian Railroad Group

Sale of the 50 per cent interest in the Australian Railroad Group (ARG), announced in February, was completed on 2 June 2006.

Revenues and earnings of the business, during the 11 months of ownership, were in line with last year's.

Sale of the business generated pre-tax earnings of $234.9 million. This represented a pre-tax return on equity to Wesfarmers over the period of ownership of 26 per cent.

Forest Products

The 50 per cent-owned Wespine Industries, which operates a plantation softwood sawmill in Dardanup in Western Australia, contributed earnings of $6.8 million after tax, in line with last year. Capital projects to increase the kiln drying capacity and to improve product yields and quality were completed and safety performance improved.

Gresham

Earnings of $2.3 million post tax from Gresham Partners, the company’s partly-owned investment house associate, were achieved through advisory assignments and funds management.

Wesfarmers’ investment in the Gresham Private Equity Fund 1 contributed pre-tax earnings of $11.7 million through two divestments. Fund 2 had made three investments to 30 June with a fourth completed in August.

Outlook

The directors are expecting improved contributions from most divisions in the 2006/07 year but a fall in earnings from the energy division as a result of lower coal prices and the impact of industry-wide high costs. A higher interest rate and fuel price environment is likely to affect discretionary expenditure and maintain cost pressures on business operations.

Overall, it is expected that a satisfactory profit will be achieved again in 2006/07, although at a lower level than that recorded in 2005/06.

Strong investment in the existing businesses will continue with capital expenditure currently budgeted at more than $800 million.

The company is in a strong position to pursue growth opportunities that satisfy its investment criteria.

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Appendix 4E - Preliminary Final Report

FOR THE YEAR ENDED 30 JUNE 2006 - WESFARMERS LIMITED AND ITS CONTROLLED ENTITIES

ABN 28 008 984 049

RESULTS FOR ANNOUNCEMENT TO THE MARKET		$000
Revenue from ordinary activities	up 8.6% to	**8,858,801**
Profit from ordinary activities after tax attributable to members	up 49.3% to	**1,048,142**
Net profit for the year attributable to members	up 49.3% to	**1,048,142**
Net profit for the year attributable to members before significant items	up 23.9% to	**869,436**
Net gain after tax on sale of an associate - Australian Railroad Group Pty Ltd		**178,706**
Net profit for the year attributable to members		**1,048,142**

DIVIDENDS	Amount per security	Franked amount per security
Interim dividend	**65 cents**	**65 cents**
Final dividend	**150 cents**	**150 cents**
Previous corresponding period		
Interim dividend	53 cents	53 cents
Final dividend	127 cents	127 cents
Record date for determining entitlements to the dividend	25 August 2006	
Date the final dividend is payable	4 September 2006	

The company's dividend investment plan has been temporarily suspended.

RATIOS

Net tangible asset backing $4.59 (2005: $3.47)
Net tangible asset backing per ordinary share (excluding employee reserved shares).

Operating cash flow per share $2.99 (2005: $2.48)
Operating cash flow per share has been calculated by dividing the net cash flow from operating activities by the weighted average number of ordinary shares (including employee reserved shares) on issue during the year.

ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES
There were no material acquisitions or disposals of subsidiaries during the year.

AUDIT
This report is based on accounts which are in the process of being audited.

PREVIOUS CORRESPONDING PERIOD
The previous corresponding period is the year ended 30 June 2005.

COMMENTARY ON RESULTS FOR THE PERIOD
A commentary on the results for the period is contained in the press release dated 15 August 2006 accompanying this statement.

Income Statement

FOR THE YEAR ENDED 30 JUNE 2006 - WESFARMERS LIMITED AND ITS CONTROLLED ENTITIES

	CONSOLIDATED	
	2006	2005
	$000	$000
Revenue		
Sale of goods	**7,610,595**	6,912,377
Rendering of services	**1,207,696**	1,188,735
Interest	**35,244**	52,776
Dividends	**786**	850
Other	**4,480**	3,893
	8,858,801	8,158,631
Cost of sales	**(4,823,434)**	(4,517,284)
Direct service expenses	**(794,645)**	(798,340)
Gross profit	**3,240,722**	2,843,007
Gain on sale of shares in associate (tax effect of $56,153,000)	**234,859**	-
Other income	**4,896**	8,722
Distribution expenses	**(198,145)**	(189,471)
Sales and marketing expenses	**(1,277,053)**	(1,222,676)
Administrative expenses	**(374,838)**	(339,023)
Other expenses	**(86,447)**	(83,277)
Finance costs	**(133,837)**	(104,176)
Share of profits and losses of associates	**56,898**	53,528
Profit before income tax	**1,467,055**	966,634
Income tax expense	**(418,913)**	(264,797)
Profit after tax from continuing operations	**1,048,142**	701,837
Profit attributable to minority interests	**-**	-
Profit attributable to members of the parent	**1,048,142**	**701,837**
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	**233.0**	189.4
Dividends per share paid or declared out of profits for the year (cents per share)	**215**	180

Dilution to earnings per share arises as a result of the employee reserved shares issued under the employee share plan being accounted for as in-substance options.

Balance Sheet

AT 30 JUNE 2006 - WESFARMERS LIMITED AND ITS CONTROLLED ENTITIES

	CONSOLIDATED	
	2006	2005
	$000	$000
ASSETS		
Current Assets		
Cash and cash equivalents	**90,046**	83,846
Trade and other receivables	**1,194,632**	1,204,980
Inventories	**1,146,398**	1,149,647
Derivatives	**43,776**	-
Other insurance assets	**658,740**	633,894
Total Current Assets	**3,133,592**	3,072,367
Non-current Assets		
Receivables	**113,562**	70,349
Available-for-sale investments	**5,755**	11,092
Investment in associates	**279,213**	439,464
Deferred tax assets	**84,922**	105,002
Property, plant and equipment	**2,396,236**	1,988,229
Goodwill	**1,470,212**	1,466,266
Derivatives	**31,655**	-
Total Non-current Assets	**4,381,555**	4,080,402
TOTAL ASSETS	**7,515,147**	7,152,769
LIABILITIES		
Current Liabilities		
Trade and other payables	**752,908**	777,024
Interest-bearing loans and borrowings	**468,038**	574,906
Income tax payable	**213,708**	99,067
Provisions	**141,120**	173,862
Derivatives	**4,171**	-
Insurance liabilities	**873,917**	836,580
Other	**124,614**	79,960
Total Current Liabilities	**2,578,476**	2,541,399
Non-current Liabilities		
Payables	**4,352**	15,204
Interest-bearing loans and borrowings	**1,074,875**	1,225,104
Deferred tax liabilities	**142,257**	143,407
Provisions	**258,778**	228,351
Derivatives	**7,966**	-
Insurance liabilities	**225,417**	195,245
Other	**57,027**	61,858
Total Non-current Liabilities	**1,770,672**	1,869,169
TOTAL LIABILITIES	**4,349,148**	4,410,568
NET ASSETS	**3,165,999**	2,742,201
EQUITY		
Equity attributable to equity holders of the parent		
Contributed equity	**1,901,522**	1,901,164
Employee reserved shares	**(159,492)**	(215,354)
Retained earnings	**1,233,898**	915,573
Reserves	**190,019**	140,766
Parent interests	**3,165,947**	2,742,149
Minority interests	**52**	52
TOTAL EQUITY	**3,165,999**	2,742,201

Cash Flow Statement

FOR THE YEAR ENDED 30 JUNE 2006 - WESFARMERS LIMITED AND ITS CONTROLLED ENTITIES

	CONSOLIDATED	
	2006	2005
	$000	$000
Cash flows from operating activities		
Receipts from customers	**9,626,613**	9,081,164
Payments to suppliers and employees	**(8,148,290)**	(7,825,273)
Dividends and distributions received from associates	**44,238**	24,745
Dividends received from others	**786**	850
Interest received	**35,244**	53,951
Borrowing costs	**(122,317)**	(104,145)
Income tax paid	**(307,220)**	(296,342)
Net cash flows from operating activities	**1,129,054**	934,950
Cash flows from investing activities		
Net redemption (acquisition) of insurance deposits	**(24,465)**	94,285
Purchase of property, plant and equipment	**(614,781)**	(465,260)
Proceeds from sale of property, plant and equipment	**16,399**	35,817
Proceeds from sale of available-for-sale financial assets	**7,482**	-
Purchase of investment in associates	**(16,999)**	(25,662)
Proceeds from sale of investments in associates	**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)**	-
Other	**(2,468)**	5,178
Net cash flows used in investing activities	**(200,930)**	(342,566)
Cash flows from financing activities		
Proceeds from borrowings	**28,752**	286,007
Repayment of borrowings	**(279,626)**	(60,454)
Proceeds from exercise of in-substance options under the employee share plan	**36,496**	98,040
Equity dividends paid	**(707,669)**	(528,189)
Payment of return of capital	**-**	(366,473)
Net cash flows used in financing activities	**(922,047)**	(571,069)
Net increase in cash and cash equivalents	**6,077**	21,315
Cash and cash equivalents at beginning of period	**77,038**	55,723
Cash and cash equivalents at end of period	**83,115**	77,038

Statement of Changes in Equity

FOR THE YEAR ENDED 30 JUNE 2006 - WESFARMERS LIMITED AND ITS CONTROLLED ENTITIES

	Attributable to equity holders of the parent						
CONSOLIDATED	Issued capital $000	Employee reserved shares $000	Retained earnings $000	Reserves $000	Total $000	Minority interest $000	Total equity $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	-	-	(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	-	-	-	(17,225)	(17,225)	-	(17,225)
Other	-	-	-	(53)	(53)	99	46
Net loss recognised directly in equity	-	(136)	-	(15,102)	(15,238)	99	(15,139)
Net profit for the year	-	-	701,837	-	701,837	-	701,837
Total recognised income and expense for the year	-	(136)	701,837	(15,102)	686,599	99	686,698
Transactions with equity holders in their capacity as equity holders:							
Return of capital	(378,041)	11,545	-	-	(366,496)	-	(366,496)
Employee share plan issue	64,433	(64,433)	-	-	-	-	-
Proceeds from exercise of in-substance options	-	98,040	-	-	98,040	-	98,040
Equity dividends	-	18,411	(546,609)	-	(528,198)	-	(528,198)
Other	-	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)	Attributable to equity holders of the parent						
	Issued capital $000	Employee reserved shares $000	Retained earnings $000	Reserves $000	Total $000	Minority interest $000	Total equity $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	**-**	**-**	**(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	**-**	**-**	**-**	**(481)**	**(481)**	**-**	**(481)**
Changes in the fair value of available-for-sale assets net of tax	**-**	**-**	**-**	**(1,791)**	**(1,791)**	**-**	**(1,791)**
Changes in the fair value of cash flow hedges net of tax	**-**	**-**	**-**	**(28,479)**	**(28,479)**	**-**	**(28,479)**
Other	**358**	**-**	**-**	**-**	**358**	**-**	**358**
Net profit/(loss) recognised directly in equity	**358**	**1,193**	**-**	**(38,922)**	**(37,371)**	**-**	**(37,371)**
Net profit for the year	**-**	**-**	**1,048,142**	**-**	**1,048,142**	**-**	**1,048,142**
Total recognised income and expense for the 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	**-**	**36,496**	**-**	**-**	**36,496**	**-**	**36,496**
Equity dividends	**-**	**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**

Notes to the Preliminary Final Report

FOR THE YEAR ENDED 30 JUNE 2006 - WESFARMERS LIMITED AND ITS CONTROLLED ENTITIES

SEGMENT REPORTING

	HOME IMPROVEMENT		ENERGY		INDUSTRIAL AND SAFETY		INSURANCE		CHEMICALS AND FERTILISERS		OTHER		CONSOLIDATED	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005
	$000	$000	**$000**	$000	**$000**	$000	**$000**	$000	**$000**	$000	**$000**	$000	**$000**	$000
Operating revenue	**4,275,487**	4,065,349	**1,676,059**	1,161,460	**1,177,669**	1,174,694	**1,117,249**	1,125,640	**595,204**	586,874	**17,133**	44,614	**8,858,801**	8,158,631
Earnings														
Earnings before interest, tax, depreciation, amortisation (EBITDA) and corporate overheads	**470,443**	463,121	**794,961**	393,840	**110,987**	124,875	**132,846**	142,560	**123,068**	128,042	**308,903**	59,476	**1,941,208**	1,311,914
Depreciation and amortisation of property, plant and equipment	**(49,990)**	(47,388)	**(167,796)**	(76,738)	**(14,158)**	(16,046)	**(8,007)**	(7,686)	**(41,688)**	(38,654)	**(1,828)**	(2,349)	**(283,467)**	(188,861)
Earnings before interest paid, tax (EBIT) and corporate overheads	**420,453**	415,733	**627,165**	317,102	**96,829**	108,829	**124,839**	134,874	**81,380**	89,388	**307,075**	57,127	**1,657,741**	1,123,053
Consolidation adjustment													**(6,480)**	(4,524)
Finance costs													**(133,837)**	(104,176)
Corporate overheads													**(50,369)**	(47,719)
Profit before income tax expense													**1,467,055**	966,634
Income tax expense													**(418,913)**	(264,797)
Profit attributable to minority interests													**-**	-
Profit attributable to members of the parent													**1,048,142**	701,837
Assets and liabilities														
Segment assets	**2,340,461**	2,241,681	**1,595,969**	1,300,414	**900,895**	946,195	**1,562,609**	1,513,379	**565,705**	521,830	**185,373**	90,804	**7,151,012**	6,614,303
Investments in associates	**-**	-	**13,495**	14,846	**-**	-	**-**	-	**52,293**	50,025	**213,425**	368,593	**279,213**	433,464
Tax assets													**84,922**	105,002
Total assets													**7,515,147**	7,152,769
Segment liabilities	**326,302**	324,041	**593,105**	529,711	**146,920**	143,896	**1,214,520**	1,173,048	**89,390**	100,329	**80,033**	97,059	**2,450,270**	2,368,084
Tax liabilities													**355,965**	242,474
Interest bearing liabilities													**1,542,913**	1,800,010
													4,349,148	4,410,568
Other segment information														
Capital expenditure	**222,284**	183,902	**286,002**	219,984	**16,344**	16,598	**20,848**	14,125	**72,528**	31,437	**3,258**	34,188	**621,264**	500,234
Share of net profit or loss of associates included in EBIT	**-**	-	**5,397**	4,728	**-**	-	**-**	-	**3,088**	3,862	**48,413**	44,938	**56,898**	53,528
Non-cash expenses other than depreciation and amortisation	**60,729**	47,739	**29,148**	36,502	**15,812**	13,299	**2,168**	4,383	**(242)**	5,480	**6,384**	18,002	**113,999**	125,405

Notes to the Preliminary Final Report

	CONSOLIDATED	
	2006	2005
	$000	$000
REVENUE AND EXPENSES		
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
	4,896	8,722
Finance costs		
Total finance costs (on a historical cost basis)	**123,991**	104,685
Discount adjustment	**14,334**	1,074
Interest capitalised	**(4,488)**	(1,583)
Total finance costs	**133,837**	104,176
Depreciation and amortisation		
Depreciation	**184,954**	172,229
Amortisation of leasehold improvements	**4,668**	3,047
Amortisation of mineral exploration and development costs	**93,845**	13,585
Employee benefits expense		
Remuneration, bonuses and on-costs	**1,116,858**	1,073,643
Share based payments expense	**27,079**	2,362
	1,143,937	1,076,005
Other expenses		
Bad and doubtful debts		
Trade receivables	**5,241**	2,669
Finance advances and loans	**961**	(554)
Minimum lease payments - operating leases	**186,948**	174,389
Writedown of inventory to net realisable value	**28,707**	17,156
Government mining royalties	**72,971**	37,450
Research and developments costs charged to cost of sales	**2,149**	4,466

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FOR THE YEAR ENDED 30 JUNE 2006 - WESFARMERS LIMITED AND ITS CONTROLLED ENTITIES

INVESTMENTS IN ASSOCIATES

Associate	Principal Activity	Ownership 2006 %	Ownership 2005 %	Share of profit/loss 2006 $000	Share of profit/loss 2005 $000
Air Liquide WA Pty Ltd	Industrial gases	**40.0**	40.0	**4,008**	3,521
Albany Woolstores Pty Ltd	Wool handling	**35.0**	35.0	**-**	-
Australian Railroad Group Pty Ltd	Rail freight	**-**	50.0	**11,344**	12,849
Bengalla Agricultural Company Pty Ltd	Dairy farming	**40.0**	40.0	**(42)**	14
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	**17,021**	18,076
Gresham Partners Group Limited	Investment banking	**50.0**	50.0	**2,266**	3,324
Gresham Private Equity Fund 1	Private equity fund	**50.0**	50.0	**11,717**	5,915
Gresham Private Equity Fund No. 2	Private equity fund	**67.4**	67.4	**(1,630)**	(2,693)
Oversea & General Stevedoring Co Pty Limited	Investment	**50.0**	50.0	**865**	637
Queensland Nitrates Management Pty Ltd	Chemical manufacture	**50.0**	50.0	**-**	-
Queensland Nitrates Pty Ltd	Chemical manufacture	**50.0**	50.0	**3,088**	3,862
Unigas	LP gas distribution	**50.0**	50.0	**1,431**	1,193
Wespine Industries Pty Ltd	Pine sawmillers	**50.0**	50.0	**6,830**	6,830
				56,898	53,528

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. 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 referred to at the end of this report.

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

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 provsions 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.

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 minortiy 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		

TRANSITION TO AIFRS (continued)

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

		CONSOLIDATED			
	Note	AGAAP $000	AIFRS impact $000	Change in accounting policy $000	AIFRS $000
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

TRANSITION TO AIFRS (continued)

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

	Note	AGAAP	AIFRS impact	Change in accounting policy	AIFRS
		CONSOLIDATED			
		$000	$000	$000	$000
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

TRANSITION TO AIFRS (continued)

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

		CONSOLIDATED			
	Note	AIFRS 1 July 2005 $000	AIFRS impact $000	Change in accounting policy $000	AIFRS $000
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

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FOR THE YEAR ENDED 30 JUNE 2006 - WESFARMERS LIMITED AND ITS CONTROLLED ENTITIES

TRANSITION TO AIFRS (continued)

		CONSOLIDATED		
	Note	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

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 will be 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;

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;

(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 of the balance of asset revaluation reserve to retained profits; and
- sundry tax effect accounting adjustments.

Notes to the Preliminary Final Report

FOR THE YEAR ENDED 30 JUNE 2006 - WESFARMERS LIMITED AND ITS CONTROLLED ENTITIES

VOLUNTARY CHANGE IN ACCOUNTING POLICY - UNCOVERED COAL 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 reserve 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	Impact of change	New Policy
Balance sheet impact	$000	$000	$000
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 period	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 period	**1,058,002**	**(9,860)**	**1,048,142**

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