WESFARMERS LIMITED HALF-YEAR REPORT

ABN 28 008 984 049

APPENDIX 4D

Information for the half-year ended 31 December 2005 given to ASX under listing rule 4.2A
(Comparative information is for the half-year ended 31 December 2004)

Results for announcement to the market

		$000
Revenue from ordinary activities	up 9.8% to	**4,447,125**
Profit from ordinary activities after tax attributable to members	up 36.5% to	**447,478**
Net profit for the half-year attributable to members	up 36.5% to	**447,478**

Interim Dividend Proposed	Amount per security	Franked amount per security
Current half-year	**65 cents**	**65 cents**
Previous corresponding half-year	53 cents	53 cents
Record date for determining entitlements to the dividend	24 February 2006	
Date the interim dividend is payable	8 March 2006	

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

It is recommended that the half-year report is read in conjunction with the Annual Financial Report of Wesfarmers Limited as at 30 June 2005 together with any public announcements made by Wesfarmers Limited and its controlled entities during the half-year ended 31 December 2005 in accordance with the continuous disclosure obligations under the Corporations Act 2001.

Condensed Income Statement

FOR THE HALF-YEAR ENDED 31 DECEMBER 2005 - WESFARMERS LIMITED AND ITS CONTROLLED ENTITIES

	Note	CONSOLIDATED 2005 $000	2004 $000
Revenue			
Sale of goods		**3,810,320**	3,425,533
Rendering of services		**604,239**	594,707
Other revenue		**32,566**	28,502
		4,447,125	4,048,742
Cost of sales		**(2,381,295)**	(2,258,439)
Direct service expenses		**(409,562)**	(402,944)
Gross profit		**1,656,268**	1,387,359
Distribution expenses		**(99,510)**	(94,247)
Sales and marketing expenses		**(640,138)**	(615,647)
Administrative expenses		**(182,984)**	(165,098)
Other expenses		**(56,751)**	(33,236)
Net gain on sale of non-current assets		**1,090**	3,427
Share of profits and losses of associates		**29,155**	28,964
Profit from continuing operations before tax and finance costs		**707,130**	511,522
Finance costs		**(70,704)**	(50,944)
Profit before income tax	3	**636,426**	460,578
Income tax expense		**(189,705)**	(131,523)
Net profit for the period		**446,721**	329,055
Loss (profit) attributable to minority interest		**757**	(1,143)
Net profit attributable to members of parent		**447,478**	327,912
Earnings per share (cents per share)			
– basic for profit for the half-year		**121.4**	90.1
– diluted for profit for the half-year		**120.0**	88.9

Condensed Balance Sheet

AT 31 DECEMBER 2005 - WESFARMERS LIMITED AND ITS CONTROLLED ENTITIES

		CONSOLIDATED		
	Note	**December 2005 $000**	June 2005 $000	December 2004 $000
ASSETS				
Current Assets				
Cash and cash equivalents		**99,961**	83,846	134,036
Trade and other receivables		**1,206,054**	1,204,980	1,167,947
Inventories		**1,286,166**	1,149,647	1,320,719
Derivatives		**46,503**	-	-
Other insurance assets		**670,986**	633,894	643,673
Total Current Assets		**3,309,670**	3,072,367	3,266,375
Non-current Assets				
Receivables		**69,466**	70,349	72,292
Available-for-sale financial assets		**6,932**	10,198	10,198
Other financial assets		**6,900**	6,894	6,901
Investment in associates accounted for using the equity method		**464,217**	433,464	416,738
Deferred income tax asset		**90,325**	96,296	96,708
Property, plant and equipment		**2,137,679**	1,991,260	1,711,652
Intangible assets		**1,463,183**	1,462,884	1,465,624
Derivatives		**33,277**	-	-
Total Non-current Assets		**4,271,979**	4,071,345	3,780,113
TOTAL ASSETS		**7,581,649**	7,143,712	7,046,488
LIABILITIES				
Current Liabilities				
Trade and other payables		**772,668**	777,024	827,806
Interest-bearing loans and borrowings		**821,919**	574,906	575,022
Income tax payable		**123,244**	99,067	53,702
Provisions		**150,255**	173,862	162,618
Derivatives		**7,503**	-	-
Insurance liabilities		**840,152**	836,580	807,141
Other		**46,746**	79,960	-
Total Current Liabilities		**2,762,487**	2,541,399	2,426,289
Non-current Liabilities				
Payables		**4,433**	15,205	10,429
Interest-bearing loans and borrowings		**1,350,898**	1,221,722	1,155,357
Deferred income tax liabilities		**154,288**	130,705	133,412
Provisions		**235,821**	228,351	215,981
Derivatives		**9,917**	-	-
Insurance liabilities		**199,307**	195,245	192,964
Other		**60,510**	61,858	-
Total Non-current Liabilities		**2,015,174**	1,853,086	1,708,143
TOTAL LIABILITIES		**4,777,661**	4,394,485	4,134,432
NET ASSETS		**2,803,988**	2,749,227	2,912,056
EQUITY				
Issued capital	5	**2,014,799**	2,014,799	2,410,066
Employee shares		**(181,626)**	(215,354)	(274,793)
Retained earnings		**887,932**	924,437	750,328
Other reserves		**86,252**	27,957	27,628
Parent interests		**2,807,357**	2,751,839	2,913,229
Minority interests		**(3,369)**	(2,612)	(1,173)
TOTAL EQUITY		**2,803,988**	2,749,227	2,912,056

Condensed Cash Flow Statement

FOR THE HALF-YEAR ENDED 31 DECEMBER 2005 - WESFARMERS LIMITED AND ITS CONTROLLED ENTITIES

		CONSOLIDATED	
	Note	**2005**	2004
		$000	$000
Cash flows from operating activities			
Receipts from customers		**4,813,260**	4,471,867
Payments to suppliers and employees		**(4,186,341)**	(3,937,164)
Dividends and distributions received from associates		**23,678**	11,047
Dividends received from others		**859**	428
Interest received		**12,553**	20,552
Borrowing costs		**(65,041)**	(51,440)
Income tax paid		**(163,633)**	(195,346)
Net cash flows from operating activities		**435,335**	319,944
Cash flows from investing activities			
Net redemption (acquisition) of insurance deposits		**(41,884)**	80,350
Purchase of property, plant and equipment		**(302,401)**	(226,589)
Proceeds from sale of property, plant and equipment		**2,614**	20,669
Proceeds from sale of available-for-sale financial assets		**7,482**	-
Purchase of investment in associates		**(14,506)**	(17,056)
Return of capital received from associates		-	2,000
Repayment of loans from associates		-	7,700
Other		**(329)**	2,993
Net cash flows used in investing activities		**(349,024)**	(129,933)
Cash flows from financing activities			
Net proceeds from borrowings		**568,842**	166,113
Repayment of borrowings		**(191,024)**	-
Proceeds from issue of shares under the employee share plan		**21,278**	56,174
Equity dividends paid		**(467,664)**	(333,985)
Net cash flows used in financing activities		**(68,568)**	(111,698)
Net increase/(decrease) in cash and cash equivalents		**17,743**	78,313
Cash and cash equivalents at beginning of period		**77,038**	55,723
Cash and cash equivalents at end of period	6	**94,781**	134,036

Condensed Statement of Changes in Equity

FOR THE HALF-YEAR ENDED 31 DECEMBER 2005 - WESFARMERS LIMITED AND ITS CONTROLLED ENTITIES

		Attributable to equity holders of the parent					Minority interest	Total equity
CONSOLIDATED	Note	Issued capital $000	Employee shares $000	Retained earnings $000	Other reserves $000	Total $000	$000	$000
At 1 July 2004 under AGAAP		2,345,633	-	931,779	55,200	3,332,612	(2,087)	3,330,525
AIFRS transition adjustments	1(e)	-	(281,428)	(104,592)	(27,500)	(413,520)	(136)	(413,656)
Change in accounting policy	1(f)	-	-	(58,525)	-	(58,525)	-	(58,525)
At 1 July 2004 under AIFRS		2,345,633	(281,428)	768,662	27,700	2,860,567	(2,223)	2,858,344
Currency translation differences		-	-	-	(54)	(54)	-	(54)
Other		-	-	-	(18)	(18)	(93)	(111)
Total income and expense for the period recognised directly in equity		-	-	-	(72)	(72)	(93)	(165)
Profit for the period		-	-	327,912	-	327,912	1,143	329,055
Total income / expense for the period		-	-	327,912	(72)	327,840	1,050	328,890
Employee share plan issue		64,433	(64,433)	-	-	-	-	-
Contributions of equity - cash		-	56,174	-	-	56,174	-	56,174
Contributions of equity - long term incentive plan		-	2,633	-	-	2,633	-	2,633
Equity dividends		-	12,261	(346,246)	-	(333,985)	-	(333,985)
At 31 December 2004		2,410,066	(274,793)	750,328	27,628	2,913,229	(1,173)	2,912,056
At 1 July 2005 under AGAAP		**2,014,799**	**-**	**1,003,470**	**64,409**	**3,082,678**	**(1,659)**	**3,081,019**
AIFRS transition adjustments	1(e)	**-**	**(215,354)**	**(23,450)**	**51,908**	**(186,896)**	**(953)**	**(187,849)**
Change in accounting policy	1(f)	**-**	**-**	**(59,452)**	**-**	**(59,452)**	**-**	**(59,452)**
At 1 July 2005 under AIFRS		**2,014,799**	**(215,354)**	**920,568**	**116,317**	**2,836,330**	**(2,612)**	**2,833,718**
Currency translation differences		**-**	**-**	**-**	**2,220**	**2,220**	**-**	**2,220**
Net change in available-for-sale financial assets		**-**	**-**	**-**	**4,094**	**4,094**	**-**	**4,094**
Net change in cash flow hedges		**-**	**-**	**-**	**(36,379)**	**(36,379)**	**-**	**(36,379)**
Total income and expense for the period recognised directly in equity		**-**	**-**	**-**	**(30,065)**	**(30,065)**	**-**	**(30,065)**
Profit for the period		**-**	**-**	**447,478**	**-**	**447,478**	**(757)**	**446,721**
Total income / expense for the period		**-**	**-**	**447,478**	**(30,065)**	**417,413**	**(757)**	**416,656**
Contributions of equity - cash		**-**	**21,278**	**-**	**-**	**21,278**	**-**	**21,278**
Equity dividends		**-**	**12,450**	**(480,114)**	**-**	**(467,664)**	**-**	**(467,664)**
At 31 December 2005		**2,014,799**	**(181,626)**	**887,932**	**86,252**	**2,807,357**	**(3,369)**	**2,803,988**

Notes to the Half-Year Financial Statements

FOR THE HALF-YEAR ENDED 31 DECEMBER 2005 - WESFARMERS LIMITED AND ITS CONTROLLED ENTITIES

1 BASIS OF PREPARATION OF THE HALF-YEAR FINANCIAL REPORT

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

The half-year financial report should be read in conjunction with the annual Financial Report of Wesfarmers Limited as at 30 June 2005, which was prepared based on Australian Accounting Standards applicable before 1 January 2005 ('AGAAP').

It is also recommended that the half-year financial report be considered together with any public announcements made by Wesfarmers Limited and its controlled entities during the half year ended 31 December 2005 in accordance with the continuous disclosure obligations arising under the Corporations Act 2001.

(a) Basis of accounting

The half-year financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001, applicable Accounting Standards including AASB 134 “Interim Financial Reporting” and other mandatory professional reporting requirements.

The half-year financial report has been prepared on a historical cost basis, except for investment properties, derivative financial instruments and available-for-sale financial assets that have been measured at fair value. The carrying values of recognised assets and liabilities that are hedged with fair value hedges are adjusted to record changes in the fair values attributable to the risks that are being hedged.

For the purpose of preparing the half-year financial report, the half-year has been treated as a discrete reporting period.

(b) Statement of compliance

The half-year financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards ('AIFRS'). Compliance with AIFRS ensures that the half-year financial report, comprising the financial statements and notes thereto, complies with AASB 134 Interim Financial Reporting.

This is the first half-year financial report prepared based on AIFRS and comparatives for the half-year ended 31 December 2004 and full-year ended 30 June 2005 have been restated accordingly. A summary of the significant accounting policies of the Group under AIFRS are disclosed in Note 1(c) below.

Reconciliations of:
- AIFRS equity as at 1 July 2004, 31 December 2004 and 30 June 2005; and
- AIFRS profit for the half-year 31 December 2004 and full year 30 June 2005, to the balances reported in the 31 December 2004 half-year report and 30 June 2005 full-year financial report prepared under AGAAP are detailed in Note 1(e) below.

(c) Summary of significant accounting policies

(i) 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.

All intercompany balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full. Unrealised losses are eliminated unless costs cannot be recovered.

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. Where there is loss of control of a subsidiary, the consolidated financial statements include the results for the part of the reporting period during which Wesfarmers Limited has control.

Minority interests represent interests in Koukia Pty Limited, Australian Gold Reagents Pty Ltd and Wesfarmers Kleenheat Elpiji Limited not held by the Group.

1 BASIS OF PREPARATION OF THE HALF-YEAR FINANCIAL REPORT (continued)

(c) Summary of significant accounting policies (continued)

(ii) Investment in associates
The Group's investment in its associates is accounted for under the equity method of accounting in the consolidated financial statements. These are entities in which the Group has significant influence and which are neither a subsidiary nor a joint venture.

The financial statements or management accounts of the associates are used by the Group to apply the equity method. The reporting dates of certain associates vary from that of the Group, but management accounts for the period to the Group's balance date are used for equity accounting. Where associates use a dissimilar accounting policy to that of the Group, adjustments are made to bring the results into line.

The investment in the associates is carried in the consolidated balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the associate, less any impairment in value. The consolidated income statement reflects the Group's share of the results of operations of the associates.

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

(iii) Interest in joint venture operations
The Group's interest in its joint venture operations is accounted for by recognising the Group's assets and liabilities from the joint ventures, as well as expenses incurred by the Group and the Group's share of income earned from the joint ventures, in the consolidated financial statements.

(iv) 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 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.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currency of the overseas subsidiaries is as listed below:

Subsidiary	Country of Incorporation	Functional Currency
Wesfarmers Risk Management Limited	Bermuda	AUD
Wesfarmers Kleenheat Elpiji Limited	Bangladesh	BDT
Bunnings Limited	New Zealand	NZD
Lumley Finance (NZ) Limited	New Zealand	NZD
Lumley General Insurance (NZ) Limited	New Zealand	NZD
Lumley Investments (NZ) Limited	New Zealand	NZD
Lumley Life (NZ) Limited	New Zealand	NZD
Lumley Services (NZ) Limited	New Zealand	NZD
Lumley Technology (NZ) Limited	New Zealand	NZD
NZ Finance Holdings Pty Limited	New Zealand	NZD
Packaging House Limited	New Zealand	NZD
Wesfarmers Industrial & Safety Holdings NZ Limited	New Zealand	NZD
Wesfarmers Industrial & Safety NZ Limited	New Zealand	NZD
ELH Services Limited	United Kingdom	GBP
ELOL Limited	United Kingdom	GBP
Lumley Technology (India) Pte Limited	India	INR

1 BASIS OF PREPARATION OF THE HALF-YEAR FINANCIAL REPORT (continued)

(c) Summary of significant accounting policies (continued)

(iv) Foreign currency translation (continued)
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 weighted average exchange rates for the period.

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

(v) Property, plant and equipment
Property, plant and equipment is stated at cost less accumulated depreciation and any impairment in value.

Accumulated exploration and evaluation expenditure on mining areas where activities have not reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves or where such costs are expected to be recouped through successful exploitation or sale, is carried forward. All other exploration and evaluation expenditure is either provided for or written off.

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

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

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

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

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

(vi) 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 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 5.93% (2004: 5.86%).

1 BASIS OF PREPARATION OF THE HALF-YEAR FINANCIAL REPORT (continued)

(c) Summary of significant accounting policies (continued)

(vii) Investment properties
Initially, investment properties are measured at cost including transaction costs.

Subsequent to initial recognition investment properties are stated at fair value.

Gains or losses arising from changes in the fair values of investment properties are included in the income statement in the period in which they arise.

Investment properties are derecognised when they have either been disposed of or when the investment property is permanently withdrawn from use and no future benefit is expected from its disposal.

Any gains or losses on the derecognition of an investment property are recognised in the income statement in the period of derecognition.

(viii) Goodwill
Goodwill on acquisition is initially measured at cost being the excess of the cost of the business combination over the acquirer’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 not amortised.

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

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

Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates.

Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised.

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

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

(ix) Intangible assets
Acquired both separately and from a business combination
Intangible assets acquired separately are capitalised at cost and from a business combination are capitalised at fair value as at the date of acquisition. Following initial recognition, the cost model is applied to the class of intangible assets.

The useful lives of these intangible assets are assessed to be either finite or indefinite.

Intangible assets created within the business are not capitalised and expenditure is charged against profits in the period in which the expenditure is incurred.

Intangible assets are tested for impairment where an indicator of impairment exists, and in the case of indefinite lived intangibles annually, either individually or at the cash generating unit level. Useful lives are also examined on an annual basis and adjustments, where applicable, are made on a prospective basis.

1 BASIS OF PREPARATION OF THE HALF-YEAR FINANCIAL REPORT (continued)

(c) Summary of significant accounting policies (continued)

(x) Recoverable amount of assets

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

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

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

(xi) Investments

As detailed in note 1(d), the Group has taken the exemption available under AASB 1 to apply AASB 132 and AASB 139 from 1 July 2005. The Group has applied previous AGAAP in the comparative information on financial instruments within the scope of AASB 132 and AASB 139. For further information on financial instruments within the scope of AASB 132 and AASB 139, refer to the annual Financial Report for the year ended 30 June 2005.

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

After initial recognition, investments, which are classified as available-for-sale are measured at fair value.

Gains or losses on available-for-sale investments are recognised as a separate component of equity until the investment is sold, collected or otherwise disposed of, or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement.

Other long-term investments that are intended to be held-to-maturity, such as bonds, are subsequently measured at amortised cost using the effective interest method.

Amortised cost is calculated by taking into account any discount or premium on acquisition, over the period to maturity.

For investments carried at amortised cost, gains and losses are recognised in income when the investments are derecognised or impaired, as well as through the amortisation process.

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

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

Purchases and sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place are recognised on the trade date i.e. the date that the Group commits to purchase the asset.

1 BASIS OF PREPARATION OF THE HALF-YEAR FINANCIAL REPORT (continued)

(c) Summary of significant accounting policies (continued)

(xii) 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 1(f) for details.

(xiii) Trade and other receivables
Trade receivables, which generally have 2-30 day terms, are recognised and carried at original invoice amount less an allowance for any uncollectible amounts.

An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

(xiv) 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.

(xv) Interest-bearing loans and borrowings
All loans and borrowings are initially recognised at cost, being the fair value of the consideration received net of issue costs associated with the borrowing.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

Gains and losses are recognised in the income statement when the liabilities are derecognised and as well as through the amortisation process.

Bank overdraft
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 and other loans
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.

1 BASIS OF PREPARATION OF THE HALF-YEAR FINANCIAL REPORT (continued)

(c) Summary of significant accounting policies (continued)

(xvi) 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 finance cost.

Employee benefits
Provision is made against profits for amounts expected to be paid to employees for accrued annual leave, long service leave and retirement entitlements. Liabilities expected to be settled within twelve months of the reporting date are measured at the amount expected to be paid. Liabilities expected to be settled after twelve months are measured at the present value of the estimated future cash outflow to be made to the employee. In determining the present value of future cash outflows, the interest rates attaching to government-backed securities which have terms to maturity approximating the terms of the related liability are used. 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.

Contributions to superannuation funds are charged to the Income Statement when due.

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. These costs are recognised in full immediately exploitation of the asset commences.

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.

(xvii) Payables
Liabilities are recognised for amounts to be paid in future for goods and services received, whether or not billed to the consolidated entity. These liabilities are normally settled on 30 day terms.

Coal rebates payable are recognised where a present obligation exists, which may 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.

1 BASIS OF PREPARATION OF THE HALF-YEAR FINANCIAL REPORT (continued)

(c) Summary of significant accounting policies (continued)

(xviii) Pensions benefits
The Group contributes to two defined benefit pension schemes.

The cost of providing benefits under the plans is determined separately for each plan using the projected unit credit actuarial valuation method.

Actuarial gains and losses are recognised immediately as income or expense in the income statement.

(xix) 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 WLTIP below. The first issue under this plan was in October 2005;
- the Wesfarmers Long Term Incentive Plan (WLTIP), which provides benefits to more senior qualifying employees. The first issue under this plan was in October 2005; and
- the Employee Share Loan Plan (ESLP), which provides benefits to all employees. The last issue under this plan was in November 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, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('vesting date').

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

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

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

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

The ESLP 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 ESLP are classified and disclosed as Employee shares and deducted from equity.

1 BASIS OF PREPARATION OF THE HALF-YEAR FINANCIAL REPORT (continued)

(c) Summary of significant accounting policies (continued)

(xx) 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.

(xxi) Leases

Leases where the lessor retains substantially all the risks and benefits of ownership of the 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 over the lease term on the same bases as the lease 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.

(xxii) 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.

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.

Dividends
Revenue is recognised when the shareholders' right to receive the payment is established.

1 BASIS OF PREPARATION OF THE HALF-YEAR FINANCIAL REPORT (continued)

(c) Summary of significant accounting policies (continued)

(xxiii) Income tax

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

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

- except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting 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.

(xxiv) 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.

1 BASIS OF PREPARATION OF THE HALF-YEAR FINANCIAL REPORT (continued)

(c) Summary of significant accounting policies (continued)

(xxv) Derecognition of financial instruments
The derecognition of a financial instrument 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.

(xxvi) Derivative financial instruments
As detailed in note 1(d), the Group has taken the exemption available under AASB 1 to apply AASB 132 and AASB 139 from 1 July 2005. The Group has applied previous AGAAP in the comparative information on financial instruments within the scope of AASB 132 and AASB 139. For further information on financial instruments within the scope of AASB 132 and AASB 139, refer to the annual Financial Report for the year ended 30 June 2005.

The Group uses derivative financial instruments such as foreign currency contracts and interest rate swaps to hedge its risks associated with interest rate and foreign currency fluctuations. Such derivative financial instruments are stated at fair value.

The fair value of forward exchange 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 either fair value hedges when they hedge the exposure to changes in the fair value of a recognised asset or liability; or cash flow hedges where they hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a forecasted transaction.

In relation to fair value hedges (interest rate swaps) which meet the conditions for special hedge accounting, any gain or loss from remeasuring the hedging instrument at fair value is recognised immediately in the income statement.

Any gain or loss attributable to the hedged risk on remeasurement of the hedged item is adjusted against the carrying amount of the hedged item and recognised in the income statement. Where the adjustment is to the carrying amount of a hedged interest-bearing financial instrument, the adjustment is amortised to the income statement such that it is fully amortised by maturity.

In relation to cash flow hedges (forward foreign currency contracts) to hedge firm commitments which meet the conditions for special hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity and the ineffective portion is recognised in the income statement.

When the hedged firm commitment results in the recognition of an asset or a liability, then, at the time the asset or liability is recognised, the associated gains or losses that had previously been recognised in equity are included in the initial measurement of the acquisition cost or other carrying amount of the asset or liability.

For all other cash flow hedges, the gains or losses that are recognised in equity are transferred to the income statement in the same year in which the hedged firm commitment affects the net profit and loss, for example when the future sale actually occurs.

For derivatives that do not qualify for hedge accounting, any gains or losses arising from changes in fair value are taken directly to the income statement.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting.

At that point in time, any cumulative gain or loss on the hedging instrument recognised in equity is kept in equity until the forecasted transaction occurs.

If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the income statement.

Notes to the Half-Year Financial Statements

FOR THE HALF-YEAR ENDED 31 DECEMBER 2005 - WESFARMERS LIMITED AND ITS CONTROLLED ENTITIES

1 BASIS OF PREPARATION OF THE HALF-YEAR FINANCIAL REPORT (continued)

(c) Summary of significant accounting policies (continued)

(xxvii) Insurance activities

Insurance premium revenue

Direct premium comprises amounts charged to the policyholder or other insurers, including fire service levies, but excluding stamp duties collected on behalf of third parties. The earned portion of premiums received and receivable including unclosed business is recognised as revenue. Premium is treated as earned from the date of attachment of risk.

The pattern of recognition of income over the policy or indemnity periods is based on time, which closely approximates the pattern of risks underwritten. Unearned premium is determined by apportioning the premium written in the year on a daily pro rata basis for direct business.

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 at balance date as a receivable.

Reinsurance recoveries are recognised as revenue for claims incurred. Recoveries receivable are measured as the present value of the expected future receipts, calculated on the same basis as the liability for outstanding claims.

Insurance claims

Claims expense and a liability for outstanding claims are recognised in respect of direct and inwards reinsurance business. The liability covers claims reported but not yet paid, incurred but not reported (“IBNR”) claims and the anticipated direct and indirect costs of settling those claims. Claims outstanding are assessed by reviewing individual claim files and estimating unnotified claims and settlement costs using statistics based on past experience and trends. Outstanding claims are subject to independent actuarial assessment.

The liability for outstanding claims is measured as the present value of the expected future payments. These payments are estimated on the basis of the ultimate cost of settling claims, which is effected by factors arising during the period of settlement such as normal and “superimposed” inflation. The expected future payments are discounted to present value at balance date. Prudential margins are included for uncertainties and latency claims.

Reinsurance and other recoveries receivable

Reinsurance and other recoveries receivable on paid claims, reported claims not yet paid and IBNRs are recognised as revenue. Recoveries receivable in relation to "long-tail" risk classes are measured as the present value of the expected future receipts, and calculated on the same basis as the liability for outstanding claims.

Deferred acquisition costs

A portion of acquisition costs relating to unearned premium revenue is deferred in recognition that it represents a future benefit. Deferred acquisition costs are measured at the lower of cost and recoverable amount and are amortised over the financial years expected to benefit from the expenditure.

Insurance investments

Investments take the form of short-term deposits and are measured at cost.

(xxviii) Earnings per share

(i) Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to ordinary equity holders of the company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

1 BASIS OF PREPARATION OF THE HALF-YEAR FINANCIAL REPORT (continued)

(c) Summary of significant accounting policies (continued)

(xxix) Deferred expenditure
Significant items of expenditure on new projects having a benefit or relationship to more than one period are carried forward and written off over the periods to which the benefit of the expenditure relates.

(xxx) Rounding
The amounts contained in this report are rounded to the nearest thousand dollars under the option available to the company under ASIC Class Order 98/100.

(xxxi) Segment Reporting
A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other business segments. A geographical segment is engaged in providing products or services within a particular economic envirnoment and is subject to risks and returns that are different from those of segments operating in other economic environments.

(d) AASB 1 Transitional exemptions

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

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

Designation of previously recognised financial instruments
Financial instruments were designated as financial assets or liabilities at fair value through profit or loss or as available-for-sale at the date of transition to AIFRS.

Share-based payment transactions
AASB 2 'Share-Based Payments' is applied only to equity instruments granted after 7 November 2002 that had not vested on or before 1 January 2005.

Exemption from the requirement to restate comparative information for AASB 132 and AASB 139
The Group has elected to adopt this exemption and has not applied AASB 132 'Financial Instruments: Presentation and Disclosure' and AASB 139 'Financial Instruments: Recognition and Measurement' to its comparative information.

Notes to the Half-Year Financial Statements

1 BASIS OF PREPARATION OF THE HALF-YEAR FINANCIAL REPORT (continued)

(e) Impact of adoption of AIFRS

The impacts of adopting AIFRS on the total equity and profit after tax as reported under Australian Accounting Standards applicable before 1 January 2005 ("AGAAP") are illustrated below.

		CONSOLIDATED			
	Note	1 July 2005 $000	30 June 2005 $000	31 December 2004 $000	1 July 2004 $000
Total equity under AGAAP		3,081,019	3,081,019	3,341,684	3,330,525
Change in accounting policy	1(f)	(59,452)	(59,452)	(59,990)	(58,525)
Effect of transition to AIFRS					
Derecognition of employee share plan loan receivable	1(e)(i)	(215,354)	(215,354)	(274,793)	(281,428)
Impairment of assets including goodwill	1(e)(ii)	(15,388)	(15,388)	(15,284)	(16,185)
Write-back of goodwill amortisation	1(e)(iii)	90,430	90,430	44,244	-
Tax effect of untaxed undistributed earnings of associates	1(e)(iv)	(31,647)	(31,647)	(26,762)	(22,720)
Tax effect of fair value adjustments on acquisition	1(e)(iv)	(17,389)	(17,389)	(17,607)	(17,825)
Recognition of rehabilitation provisions	1(e)(v)	(56,060)	(56,060)	(55,472)	(55,486)
Derecognition of pre-opening store costs	1(e)(vi)	(11,209)	(11,209)	(11,467)	(8,540)
Recognition of pension liability	1(e)(vii)	(4,589)	(4,589)	-	-
Inventory valuation adjustment	1(e)(viii)	(11,493)	(11,493)	(12,404)	(11,595)
Fair value of hedge derivatives	1(e)(ix)	77,291	-	-	-
Mark-to-market available-for-sale financial assets	1(e)(x)	11,066	-	-	-
Increase in insurance liabilities	1(e)(xi)	(3,866)	-	-	-
Associate’s revaluation of investment properties	1(e)(xii)	4,701	4,701	5,018	2,384
Other minor adjustments	1(e)(xiii)	(4,342)	(4,342)	(5,111)	(2,261)
Total equity under AIFRS		2,833,718	2,749,227	2,912,056	2,858,344

		CONSOLIDATED	
	Note	Year ended 30 June 2005 $000	Half-year ended 31 December 2004 $000
Net profit as reported under AGAAP		618,874	292,243
Change in accounting policy	1(f)	(927)	(1,465)
Effect of Transition to AIFRS			
Adjustment for impairment losses	1(e)(ii)	797	901
Amortisation of goodwill	1(e)(iii)	90,430	44,244
Tax effect of untaxed undistributed earnings of associates	1(e)(iv)	(8,927)	(4,042)
Tax effect on fair value adjustments on acquisition	1(e)(iv)	436	218
Adjustment for rehabilitation expenses	1(e)(v)	(574)	14
Adjustment for pre-opening store expenses	1(e)(vi)	(2,669)	(2,927)
Adjustment for pension liability	1(e)(vii)	(4,589)	-
Adjustment for inventory valuation	1(e)(viii)	104	(808)
Adjustment for associate’s revaluation of investment properties	1(e)(xii)	11,267	3,595
Other minor adjustments	1(e)(xiii)	(2,081)	(2,918)
Net profit under AIFRS		702,141	329,055

Notes to the Half-Year Financial Statements

FOR THE HALF-YEAR ENDED 31 DECEMBER 2005 - WESFARMERS LIMITED AND ITS CONTROLLED ENTITIES

1 BASIS OF PREPARATION OF THE HALF-YEAR FINANCIAL REPORT (continued)

(e) Impact of adoption of AIFRS (continued)

(i) Under AASB 2 *Share-based Payments* , 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, as a result of the exemption available in AASB 1 for fully vested option issues;

(ii) 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;

(iii) 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;

(iv) 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;

(v) 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 are 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 would be recognised in the income statement. These adjustments are offset by the reversal of periodic rehabilitation provisioning charged under AGAAP for the year;

(vi) 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;

(vii) 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, rather than use the cash basis as under previous AGAAP;

(viii) 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;

1 BASIS OF PREPARATION OF THE HALF-YEAR FINANCIAL REPORT (continued)

(e) Impact of adoption of AIFRS (continued)

(ix) 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 fair value adjustments reflected in the hedge reserve and the related hedge receivable or payable recognised as an asset or liability;

(x) 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;

(xi) Under AASB 4 *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;

(xii) Under AASB 140 *Investment Property* , an associate, Bunnings Warehouse Property Trust, has recognised revaluations of investment properties through the income statement, rather than through a revaluation reserve. This has resulted in a reclassification of the share of reserves at transition being reclassified to share of retained earnings, and a share of revaluation increments being recognised as associate earnings in the income statement; and

(xiii) Other minor adjustments include a number of immaterial items, such as 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, and sundry tax effect accounting adjustments.

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

(f) 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 reserve at the coal mining operations. The Group now absorbs the 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:

1 BASIS OF PREPARATION OF THE HALF-YEAR FINANCIAL REPORT (continued)

(f) Voluntary change in accounting policy - Uncovered coal reserve inventory (continued)

	CONSOLIDATED		
Balance sheet impact	Previous Policy $000	Impact of change $000	New Policy $000
1 July 2004			
Inventories	1,243,507	(79,606)	1,163,901
Deferred income tax liabilities	152,066	(21,081)	130,985
Retained profits	827,187	(58,525)	768,662
31 December 2004			
Inventories	1,403,568	(82,849)	1,320,719
Deferred income tax liabilities	156,271	(22,859)	133,412
Retained profits	810,318	(59,990)	750,328
30 June 2005			
Inventories	1,231,542	(81,895)	1,149,647
Deferred income tax liabilities	153,148	(22,443)	130,705
Retained profits	983,889	(59,452)	924,437
31 December 2005			
Inventories	**1,366,469**	**(80,303)**	**1,286,166**
Deferred income tax liabilities	**175,910**	**(21,622)**	**154,288**
Retained profits	**946,613**	**(58,681)**	**887,932**
Income statement impact			
Half-year ended 31 December 2004			
Profit before income tax	463,821	(3,243)	460,578
Income tax expense	133,301	(1,778)	131,523
Net profit for the period	330,520	(1,465)	329,055
Year ended 30 June 2005			
Profit before income tax	970,656	(2,289)	968,367
Income tax expense	267,588	(1,362)	266,226
Net profit for the period	703,068	(927)	702,141
Half-year ended 31 December 2005			
Profit before income tax	**634,834**	**1,592**	**636,426**
Income tax expense	**188,884**	**821**	**189,705**
Net profit for the period	**445,950**	**771**	**446,721**

Notes to the Half-Year Financial Statements

FOR THE HALF-YEAR ENDED 31 DECEMBER 2005 - WESFARMERS LIMITED AND ITS CONTROLLED ENTITIES

2 SEGMENT REPORTING

	HARDWARE		ENERGY		INDUSTRIAL AND SAFETY		INSURANCE		CHEMICALS AND FERTILISERS		OTHER		CONSOLIDATED	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004
	$000	$000	**$000**	$000	**$000**	$000	**$000**	$000	**$000**	$000	**$000**	$000	**$000**	$0
Operating revenue	**2,215,547**	2,134,279	**814,449**	517,810	**588,006**	589,651	**566,582**	562,507	**253,329**	217,002	**9,212**	27,493	**4,447,125**	4,048,742
Earnings														
Earnings before interest, tax, depreciation, amortisation (EBITDA) and corporate overheads	**245,191**	248,562	**407,692**	158,358	**53,094**	59,592	**67,342**	69,736	**48,491**	48,416	**37,455**	40,907	**859,265**	625,571
Depreciation and amortisation of property, plant and equipment	**(24,336)**	(23,113)	**(64,466)**	(34,578)	**(7,105)**	(8,064)	**(3,809)**	(3,565)	**(21,770)**	(19,341)	**(968)**	(1,357)	**(122,454)**	(90,018)
Earnings before interest paid, tax (EBIT) and corporate overheads	**220,855**	225,449	**343,226**	123,780	**45,989**	51,528	**63,533**	66,171	**26,721**	29,075	**36,487**	39,550	**736,811**	535,553
Consolidation adjustment													**(2,199)**	(180)
Finance costs													**(70,704)**	(50,944)
Corporate overheads													**(27,482)**	(23,851)
Profit from ordinary activities before income tax expense													**636,426**	460,578
Income tax expense													**(189,705)**	(131,523)
Loss (profit) attributable to minority interest													**757**	(1,143)
Net profit attributable to members of parent													**447,478**	327,912

Revenue and earnings of various divisions are impacted by seasonality and cyclicality as follows:-

- Hardware - 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.

Overall, the impact on the Group balances out and is not expected to be material.

Notes to the Half-Year Financial Statements

	CONSOLIDATED	
	2005	2004
	$000	$000
3 REVENUE AND EXPENSES		
Profit before income tax expense includes the following items whose disclosure is relevant in explaning the performance of the entity:		
Other income		
Cumulative change in fair value of investment properties of associate	**3,579**	4,724
Expenses		
Depreciation	**122,454**	90,018
Expense of share-based payments	**28,310**	-
Finance costs - net		
Interest and finance charges paid/payable	**65,041**	51,041
Discount	**7,348**	537
Interest capitalised	**(1,685)**	(634)
	70,704	50,944
4 DIVIDENDS PAID AND PROPOSED		
Dividends paid during the half-year		
Final franked dividend for the financial year 30 June 2005: $1.27 (2004: 92 cents)	**480,114**	346,246
Dividends proposed and not recognised as a liability		
Interim franked dividend for financial year 30 June 2006: 65 cents (2005: 53 cents)	**245,727**	200,363
	725,841	546,609
5 ISSUED CAPITAL		
Issued and fully paid ordinary share capital	**2,014,799**	2,410,066
There was no movement in ordinary shares on issue during the current period		
6 CASH FLOWS		
Reconciliation of cash		
For the purposes of the Condensed Cash Flow Statement, cash and cash equivalents comprise the following at 31 December:		
Cash at bank and in hand	**99,961**	93,287
Short term deposits	**-**	40,749
Bank overdraft	**(5,180)**	-
	94,781	134,036
Non-cash financing and investing activities		
Dividends paid and incentive payments recorded as employee share repayments	**12,450**	14,894
Dividend received recorded as acquisition of investment in associate	**-**	3,952

Notes to the Half-Year Financial Statements

	CONSOLIDATED	
	2005	2004

7 CONTINGENT ASSETS AND LIABILITIES

Since the last annual reporting date, there has been no material change of any contingent liabilities or contingent assets

8 CHANGE IN COMPOSITION OF THE GROUP

Since the last annual reporting date, there have been no significant changes in the composition of the Group.

9 NET TANGIBLE ASSET BACKING

Net tangible asset backing per share	**$3.55**	$3.83

10 EVENTS AFTER THE BALANCE SHEET DATE

With the exception of the matters outlined below, no other matter or cirumstance has arisen subsequent to 31 December 2005 that has significantly affected or may significantly affect:
(a) the consolidated entity's operations in future financial years; or
(b) the results of those operations in future financial years; or
(c) the consolidated entity's state of affairs in future financial years.

	$000	$000
An interim dividend of 65 cents per share has been declared after reporting date payable on 8 March 2006 in respect of the year ending 30 June 2006 (2005: 53 cents)	**245,727**	200,363

On 13 February 2006 a controlled entity in the Group, Wesfarmers Railroad Holdings Pty Ltd, entered into an agreement with various third parties to dispose of its shares, representing a 50% equity interest, in Australian Railroad Group Pty Ltd ("ARG").

Total consideration for the sale is subject to a completion settlement determined from audited completion accounts, but is likely to amount to approximately $425 million. Satisfaction of conditions precedent and settlement is anticipated to occur by 30 June 2006.

The Group's equity-accounted carrying value of the investment in ARG at 31 December 2005 was $189 million. Subject to settlement and adjustments made at that point, the likely profit to be recognised by the Group will be approximately $235 million before tax. The tax expense in relation to this sale is dependant upon available tax losses which have not been determined at the date of signing of these accounts.