



27 September 2007

The Manager  
Company Announcements Office  
Australian Securities Exchange Limited  
Level 4  
20 Bridge Street  
**SYDNEY NSW 2000**

Dear Sir,

**Wesfarmers Limited 2007 Annual Report**

Attached is a copy of the Wesfarmers Limited 2007 Annual Report.

Printed copies of the Annual Report will be posted to shareholders (unless they have elected not to receive a copy of the report) on 8 October 2007.

A copy of the Annual Report will also be available on the company's website [www.wesfarmers.com.au](http://www.wesfarmers.com.au).

Yours faithfully,

L J KENYON  
COMPANY SECRETARY

Enc.



**Wesfarmers**

**2007 Annual Report**

## CHAIRMAN'S LETTER



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# Our objective

Our primary objective is to provide a satisfactory return to shareholders. We aim to achieve this by:

- satisfying the needs of customers through the provision of goods and services on a competitive and professional basis;
- providing a safe and fulfilling working environment for employees, rewarding good performance and providing opportunities for advancement;
- contributing to the growth and prosperity of the countries in which we operate by conducting existing operations in an efficient manner and by seeking out opportunities for expansion;
- responding to the attitudes and expectations of the communities in which we operate;
- placing a strong emphasis on protection of the environment; and
- acting with integrity and honesty in dealings both inside and outside the company.

# Who we are

From our origin in 1914 as a Western Australian farmers' co-operative, Wesfarmers Limited has grown into one of Australia's largest public companies. We operate through a portfolio of diversified businesses primarily focused in Australia and New Zealand. These activities comprise interests in home improvement products and building supplies, coal mining, gas production and distribution, industrial and safety product distribution, chemicals and fertilisers manufacture and insurance. We also have interests in private equity and other activities.

### CORPORATE DIRECTORY

Wesfarmers Limited  
ABN 28 008 984 049

#### Registered office

Level 11, Wesfarmers House  
40 The Esplanade, Perth,  
Western Australia 6000

Telephone: (+61 8) 9327 4211

Facsimile: (+61 8) 9327 4216

Website: [www.wesfarmers.com.au](http://www.wesfarmers.com.au)

Email: [info@wesfarmers.com.au](mailto:info@wesfarmers.com.au)

### Executive directors

Richard Goyder  
*Managing Director and  
Chief Executive Officer*

Gene Tilbrook  
*Finance Director*

### Non-executive directors

Trevor Eastwood AM *Chairman*

Colin Carter OAM

Patricia Cross

Bob Every

Tony Howarth AO

James Graham

Dick Lester

Charles Macek

David White

### Company Secretary

Linda Kenyon

### SHARE REGISTRY

Computershare Investor Services  
Pty Limited  
Level 2, 45 St George's Terrace  
Perth, Western Australia 6000

Telephone:

Australia: 1300 558 062

International: (+61 3) 9415 4631

Facsimile:

Australia: (08) 9323 2033

International: (+61 8) 9323 2033

Website: [www.computershare.com.au](http://www.computershare.com.au)



## OUR BUSINESSES

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- 20 Insurance
- 24 Industrial and safety
- 28 Chemicals and fertilisers
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# Our primary objective is to provide a satisfactory return to shareholders

### FINANCIAL CALENDAR\*

Record date for final dividend	2 November 2007
Annual general meeting	15 November 2007
Final dividend paid	19 November 2007
Half-year end	31 December 2007
Half-year profit announcement	February 2008
Record date for interim dividend	February 2008
Interim dividend payable	March 2008
Year-end	30 June 2008

\* Timing of events is subject to change

### ANNUAL GENERAL MEETING

The 26th annual general meeting of Wesfarmers Limited will be held at the Burswood Convention Centre, Great Eastern Highway, Burswood, Western Australia on Thursday 15 November 2007 at 2.00 pm.

### WEBSITE

Visit Wesfarmers' website at [www.wesfarmers.com.au](http://www.wesfarmers.com.au) for shareholder and company information, news announcements, background information on Wesfarmers' businesses and historical information, including previous years' annual reports.



## OPERATIONAL HIGHLIGHTS

- Acquired a significant shareholding in Coles Group Limited
- Acquired leading insurance brokers OAMPS (Australia) and Crombie Lockwood (New Zealand)
- Completed construction of \$360 million Curragh North conveyor and coal handling system
- Good progress on expansion of CSBP's ammonium nitrate facility
- Commenced construction of LNG plant at Kwinana, Western Australia
- Acquired Coregas, a major producer and distributor of industrial and medical gases
- Acquired Bullivants, a leading supplier of materials handling, lifting and rigging equipment

## FINANCIAL HIGHLIGHTS

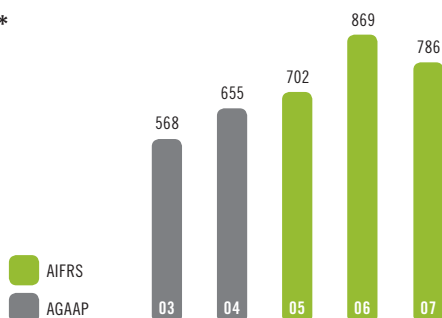
- Revenue of \$9.8 billion, up 10.1 per cent from \$8.9 billion
- Profit of \$786.3 million
- Full-year dividend up 4.7 per cent to \$2.25 per share
- Operating cash flow up 14.3 per cent to \$3.41 per share
- Home improvement division earnings up 25.7 per cent to \$528.4 million
- Return on equity of 25.1 per cent

# Performance highlights

## Net profit (\$m)\*

2007

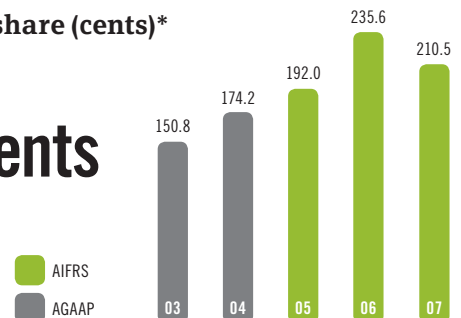
**\$786m**



## Earnings per share (cents)\*

2007

**210.5 cents**



\*excludes earnings from the sale of the Girrah coal deposit in 2003, the sale of Landmark in 2004 and the sale of ARG in 2006.

# Results summary

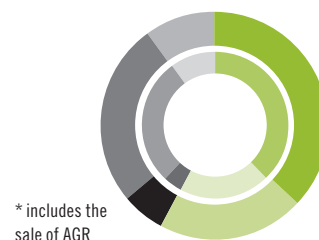
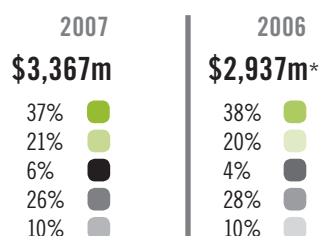
		2007 AIFRS	2006 AIFRS
<b>Key financials</b>			
Revenue (excluding the sale of ARG in 2006)	\$m	9,754	8,859
Profit before net interest and tax (excluding the sale of ARG in 2006)	\$m	1,220	1,313
Profit after tax (including the sale of ARG in 2006)	\$m	786	1,048
Profit after tax (excluding the sale of ARG in 2006)	\$m	786	869
Dividends	\$m	865	813
Total assets	\$m	12,076	7,430
Net borrowings	\$m	4,989	1,458
Shareholders' equity	\$m	3,503	3,166
Capital expenditure on property, plant and equipment	\$m	680	615
Depreciation and amortisation	\$m	345	283
<b>Key share data</b>			
Earnings per share	cents	210.5	284.0
Earnings per share (excluding the sale of ARG in 2006)	cents	210.5	235.6
Dividends per share	cents	225.0	215.0
Net tangible assets per share	\$	2.11	4.59
Operating cash flow per share	\$	3.41	2.99
<b>Key ratios</b>			
Return on average shareholders' equity (excluding the sale of ARG in 2006)	%	25.1	31.1
Gearing (net debt to equity)	%	143.6	46.1
Gearing (net debt to equity)#	%	83.5	46.1
Interest cover (cash basis)	times	8.7	13.8
Interest cover (cash basis)#	times	10.6	13.8

#excludes borrowings to fund purchase of the shareholding in Coles Group Limited.

## Creating wealth and adding value

Wealth created by Wesfarmers:

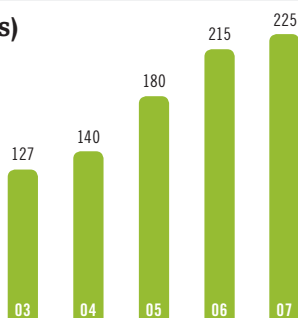
- Employees - salaries, wages and other benefits
- Government - taxes and royalties
- Lenders - borrowed funds
- Shareholders - dividends on their investment
- Reinvested in the business



## Dividends per share (cents)

2007

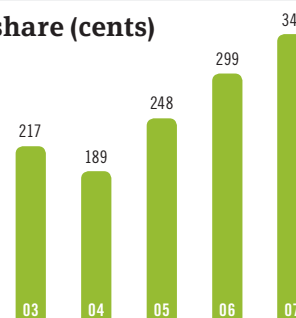
# 225 cents



## Operating cash flow per share (cents)

2007

# 341 cents



Your Board is confident that we are ready to take advantage of the many opportunities ahead of us. In every sense, we are excited about the future



## Chairman's letter to shareholders



Dear Shareholder,

On behalf of the Board, I am delighted to present the Wesfarmers 2007 Annual Report.

It has been a very busy year for the company with a number of significant acquisitions. These included leading insurance brokers OAMPS and Crombie Lockwood; the medical and industrial gases producer and distributor Coregas (formerly Linde Gas); and Bullivants, Australia's leading supplier of lifting and rigging equipment.

In April 2007, Wesfarmers acquired a major stake in Coles Group Limited and in September 2007 the Coles Board unanimously recommended Wesfarmers' enhanced proposal to acquire Coles Group Limited by way of a scheme of arrangement.

In addition, a number of major investment projects were completed or were well progressed at year end.

These included the completion of the 20 kilometre conveyor and coal handling system at the Curragh coal mine in Queensland and substantial progress on construction of CSBP's ammonium nitrate expansion and Wesfarmers Energy's new liquefied natural gas (LNG) plant, both at Kwinana in Western Australia.

The increased level of activity during the year resulted in a significantly heavier workload for the company's dedicated team of employees. I would like to take this opportunity to thank them sincerely for their loyalty and tremendous efforts over the past 12 months.

I would also like to extend a personal vote of thanks to my fellow directors for their hard work and tireless contribution. I have greatly valued their support and commitment to our objective of delivering a satisfactory return to our shareholders.

For more details on the company's activities during the year, including the proposal to acquire Coles, I encourage you to read the review by our Managing Director, Richard Goyder, and the operational reports that follow.

The Board declared a fully-franked final dividend of \$1.40 per share (last year \$1.50) for the year ended 30 June 2007, taking the full-year fully-franked dividend to \$2.25 per share compared to last year's \$2.15. The total dividend for the year represents 110 per cent of net profit after tax. The company also reinstated the dividend investment plan during the year, providing shareholders with the ability to invest all or a portion of their dividend entitlements in additional Wesfarmers shares.

Lou Giglia retired as a director in November 2006 after 35 years distinguished service. We thank him for his outstanding contribution. In July 2007, the Board announced the appointment of Tony Howarth as a non-executive director. Tony has more than 30 years experience in the banking and finance industry and his appointment will further strengthen the Board's level of commercial expertise. I would like to take this opportunity to welcome Tony to the Board.

The Board continues to review its corporate governance policies and procedures to ensure it fulfils its obligations and meets the expectations of stakeholders. Further details of the company's corporate governance practices are set out on pages 44 to 52 of this report.

The pursuit of sustainable outcomes is a major driver of a number of initiatives to improve the performance of the group's businesses and these are summarised on pages 37 to 41 of this report. The company's Sustainability Report, which will be released in November 2007, will provide a detailed description of the company's performance during the year in the areas of workplace safety, environmental impacts and community engagement.

Your Board is confident that we are ready to take advantage of the many opportunities ahead of us. In every sense, we are excited about the future.

Yours sincerely,

**Trevor Eastwood AM**  
Chairman



We are really pleased  
with the growth  
prospects of each of  
our businesses



## Managing Director's review



## THE YEAR AT A GLANCE

In my comments last year I referred to the Wesfarmers commitment to long term thinking and decision-making and its likely origins in our rural past.

At the risk of repetition, it is hard to imagine a year in which that fundamental principle has been more important than the 12 months we are reviewing in this report. That is particularly the case in the context of our proposal to acquire Coles Group Limited, to which I will return.

At Wesfarmers, we faced a year in which we expected the group's profit would decline because of the fall in export coal prices. In those circumstances, we had to work even harder across all our businesses and concentrate on what was within our ability to directly manage and influence.

The net profit for the year of \$786.3 million, a decline of 9.6 per cent on the previous year when the profit from

the sale of our rail interest is excluded, is a good result. With a more than 40 per cent drop in earnings from coal because of the lower prices, the rest of the group rallied, led by an absolutely outstanding performance from the Bunnings home improvement division. Bunnings' achievement of a 16.1 per cent increase in trading earnings and underlying store-on-store cash sales growth of more than 10 per cent is a tribute to the skill and hard work of the more than 24,000 people employed in that business across Australia and New Zealand.

Despite the price decline, the coal division remained our second main contributor to group profit with an increase in sales from the Curragh mine in Queensland and our 40 per cent-owned Bengalla mine in the Hunter Valley but a decline at the Premier mine in Western Australia. Both Curragh and Bengalla remain affected by infrastructure constraints but both are actively investigating expansion plans.

We were somewhat disappointed in the performance of the insurance division which was affected by higher than expected claims related to severe weather events and by strong competition. Wesfarmers Federation Insurance, our original entry to the insurance sector, had a record year despite unfavourable seasonal conditions. Recent acquisitions, particularly the OAMPS and Crombie Lockwood purchases, performed well and will play a more significant part in the 2007/08 result.

The industrial and safety division benefited from a restructure and improved its customer service to better-than-competitor benchmark levels. The division recorded a significant lift in earnings and all of its businesses are looking forward to continuing growth.

Revenue from the CSBP chemicals and fertilisers division was down but profits were up due to improved returns from fertilisers, ammonium nitrate and an asset sale. The fertilisers uplift was achieved despite another poor start to the season in Western Australia.

The new energy division, created with the separation in September 2006 of the gas and power generation businesses from the coal assets, showed earnings growth of more than 50 per cent with a part-year boost from the Coregas industrial and medical gases business, acquired in February 2007, and improved performance from the other businesses.

We continue to benefit from our involvement in Gresham Partners and their private equity activities and from our plantation pine sawmilling joint venture, Wespine.

In 2006/07, there was a significant contribution from our investment in the Bunnings Warehouse Property Trust.

As always, we maintain an active replacement and expansion capital expenditure programme. During the year we exceeded the 2005/06 record by outlaying \$680 million and we have budgeted more than \$800 million for investment in existing businesses in 2007/08, with more than half allocated to growth assets.

## STRATEGIC APPROACH

The four key strategies that we follow to achieve our objective of satisfactory shareholder returns were all relevant in the year under review.

The first – to strengthen existing businesses through operating excellence and satisfying customer needs – has particular application to the way in which Bunnings and the industrial and safety businesses have lifted performance to deliver such good results. It is evident also in the way in which improved cost containment and margin management in fertilisers saw that business defy unfavourable conditions and produce a better outcome.

Our second strategy is to secure growth opportunities through entrepreneurial initiative. We are really pleased with the growth prospects of each of our businesses.

Bunnings will continue to roll-out new stores, refurbish existing ones and, importantly, add to its product and service range. Our coal division is undertaking feasibility studies with a view to increasing production at the Curragh and Bengalla mines. During the year we significantly boosted the prospects for the insurance division through the acquisition of OAMPS and Crombie Lockwood.

The industrial and safety division acquired the Bullivants lifting business which is performing well, as is the new Queensland distribution centre. CSBP has nearly completed the 235,000 tonne ammonium nitrate expansion at Kwinana and is also looking at increasing production of sodium cyanide for the Boddington gold mine project and of ammonium nitrate at our QNP joint venture in Queensland. In the energy division we have integrated the Sydney-based Coregas business, and construction is well under way on the 175 tonne-per-day liquefied natural gas production facility at Kwinana to provide LNG for the heavy duty vehicle and remote area energy markets.

The third strategy – to renew the portfolio through value-adding transactions – has seen us devote substantial resources to work on the Coles offer which is still in progress and to which I will refer in more detail a little later.

Our fourth strategy – to ensure sustainability through responsible long-term management – is covered in more detail later in this report and even more comprehensively in the separate report which will be available at the time of the annual general meeting.

Wesfarmers remains active in the pursuit of sustainable outcomes. New initiatives by Bunnings on water conservation and climate change continue its industry-

leading role. They follow the plastic bag reduction programme that has been so successful in Australia and is now operating in Bunnings' New Zealand stores and the attention to supply chain issues on wood and wood products.

At the parent company level, we commissioned an external report on greenhouse risks and opportunities that will provide a basis for future action across the group. In a submission to the Prime Minister's Task Group on Emissions Trading we supported the introduction of a truly global scheme as a contribution to reducing atmospheric greenhouse gases.

Sustainability is a multi-faceted concept, encompassing amongst other things the environment, the way in which we treat our employees, ethical business conduct and the community contributions we make. One of these aspects, the attraction, development and retention of quality people, is becoming an absolutely key issue in the context of ongoing strong economic growth. I believe it is likely to be the biggest single challenge facing public companies over the next decade.

Wesfarmers has always aspired to be an employer of choice and that is linked to remuneration we offer and the sort of workplaces we provide. But a crucial further element is that increasingly people are factoring in the reputation enjoyed by a potential employer. That is where a genuine and demonstrable commitment to being a sustainable company plays such an important part, especially for those skilled young people with wide choice in the job market.

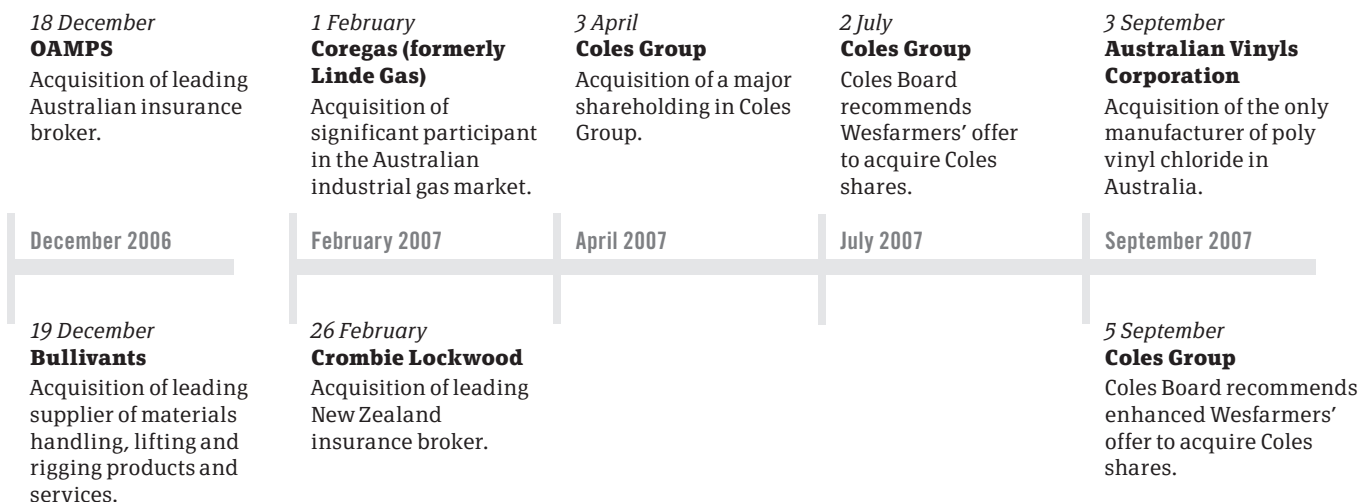
## COLES

On 3 April 2007, Wesfarmers announced the acquisition of a significant shareholding in Coles Group Limited and an indicative proposal to acquire all the shares in that company. On 2 July, Wesfarmers and Coles reached agreement on the terms of a scrip and cash proposal which received the support of the Coles Board.

That recommendation was reiterated by Coles on 5 September (subject to there being no superior proposal) when our companies jointly announced agreement on an enhanced offer.

At the time of writing this review, the transaction was incomplete. We look forward to finalisation in November 2007.

## 12 months acquisition timeline



Coles is a great Australian company with a set of irreplaceable quality business assets and more than 160,000 dedicated employees. Our proposed acquisition is expected to create value for our shareholders. As suggested at the start of these remarks, our approach on Coles is entirely consistent with the long-term focus that has been central to the success Wesfarmers has enjoyed.

Extensive details of our plans to improve the performance of Coles were released publicly on 16 August 2007 and they, along with all other significant statements we have made on the transaction, are available on our website at [www.wesfarmers.com.au](http://www.wesfarmers.com.au).

I want to take this opportunity to express my sincere thanks to the large team from the Wesfarmers corporate office and from Bunnings and our other divisions, for their efforts that have been sustained over many gruelling months and have involved, in many cases, extraordinarily long working hours.

## FINANCE

Our balance sheet remains in good shape. The ratio of net debt to equity at 30 June 2007 was 143.6 per cent. Excluding the borrowings of \$2.1 billion to fund the shareholding in Coles, the ratio would be 83.5 per cent. Our cash interest cover is a healthy 8.7 times or 10.6 times with borrowings associated with the Coles acquisition excluded.

## MANAGEMENT

Bob Buckley, a long-standing and highly valued Wesfarmers employee, retired as Managing Director of the insurance division at the end of the financial year. He has been replaced by Robert Scott who was appointed Deputy Managing Director in February 2007. On behalf of the company I extend my thanks to Bob Buckley for his excellent service as I do to the Assistant Company Secretary, Paul Gardiner, who retired in March 2007 after a long and distinguished career with Wesfarmers.

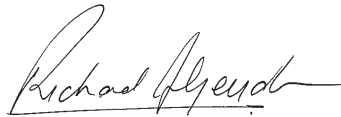
## CONCLUSION

As is always the case, the company's performance to which I refer in these brief comments is attributable in part to the excellent assets we own but, in my view most particularly, to the efforts of our more than 30,000 employees. I want to express the confidence of the Board and senior management

in the quality of our employees and to convey to them our appreciation for their efforts during the year. My thanks also to the Board and to my senior executive colleagues for the great support given over the past 12 months.

Looking ahead, we can expect a further reduction in coal revenues due to lower prices for the first nine months of 2007/08 but prospects are better beyond that time. All other divisions should make an increased contribution.

The outcome of the Coles transaction will be known relatively shortly after the publication of this report. We will keep shareholders fully informed of developments as they occur.



**Richard Goyder**  
Managing Director



**The attraction, development and retention of quality people, is becoming an absolutely key issue in the context of ongoing strong economic growth.**

(L-R) Bunnings Team Member, Bruce Lilford; Coregas Truck Driver, Matthew Peacock; Curragh Mine Mining Engineer, Cassandra Aron; Crombie Lockwood General Manager, New Zealand Branches, Keith McIvor; CSBP Environmental Adviser, Steph Felstead; Industrial and Safety Dispatch Supervisor Gread Tiitii.

# Review of operations

Division Contribution to EBIT\*

Businesses

Activities

**Home improvement**  
Employees: 24,000

39%

**BUNNINGS warehouse**  
**BUNNINGS**  
**HouseWorks**  
A Better Home For Less.

- Retailer of home improvement products and building materials
- Servicing project builders and the housing industry

**Coal**  
Employees: 660

25%

**CURRAGH**  
**Premier Coal**  
**BENGALLA**

- Operating and developing coal mines in Queensland (Curragh) and Western Australia (Premier Coal); 40% interest in New South Wales coal mine (Bengalla Joint Venture)
- Supplier of metallurgical coal to export markets and steaming coal to both domestic and export markets

**Insurance**  
Employees: 3,000

9%

**WESFARMERS FEDERATION INSURANCE LIMITED**  
**OAMPS** **Lumley**  
**CROMBIE & LOCKWOOD**  
New Zealand's Insurance Brokers  
**KOUKIA**

- Provision of general insurance products to select market segments in Australia and New Zealand under Wesfarmers Federation Insurance ("WFI") and Lumley brands
- Insurance and financial services distribution via OAMPS in Australia and UK, and Crombie Lockwood in New Zealand
- Specialist risk placement via underwriting agencies in Australia and the UK
- Development of general insurance software

**Industrial and safety**  
Employees: 3,200

8%

**Blackwoods**  
**Bullivants** **Protector Alsafe**  
**MOTION INDUSTRIES** **mullings**  
**Blackwoods Paykels**  
NEW ZEALAND'S LEADING PROVIDER OF INDUSTRIAL SUPPLIES AND SERVICES  
**NZ Safety** **Packaging House**  
**protectorsafety**

- Supply of engineering products and industrial consumables, safety products and training services, packaging, materials handling and lifting products and services through a portfolio of leading distributors across Australia and New Zealand
- Servicing industry and government through extensive national branch networks and online channels

**Chemicals and fertilisers**  
Employees: 618

7%

**CSBP Chemicals** **CSBP Fertilisers**  
**AGR** **QNP**

- Manufacture and marketing of chemicals for mining, mineral processing and industry
- Manufacture and marketing of broadacre and horticultural fertilisers
- Provider of soil and plant testing and agronomy advisory services

**Energy**  
Employees: 900

5%

**Kleenheat Gas**  
**AIR LIQUIDE** **WESTERN AUSTRALIA**  
**coregas** **WESFARMERS LPG**  
**UNIGAS** **enGen**  
LPG

- Production, marketing and distribution of liquefied petroleum gas (LPG) and liquefied natural gas (LNG)
- Manufacture, marketing and distribution of industrial and medical gases
- Power generation for remote towns and resource projects

**Other activities**

7%

**BUNNINGS WAREHOUSE PROPERTY TRUST**  
**GRESHAM** **WESPINE INDUSTRIES**

- Wespine** - 50 per cent interest in a softwood mill at Dardanup, Western Australia
- Gresham** - 50 per cent interest in the investment bank, Gresham Partners; plus interests in Gresham's private equity funds
- Bunnings Warehouse Property Trust** - 22.6 per cent interest in the property trust which mainly owns Bunnings Warehouses tenanted by Bunnings Group Limited

\*after corporate overheads and consolidation adjustments

## Year in brief

- 25.7 per cent increase in earnings
- 16.1 per cent increase in Bunnings' trading EBIT
- 13.8 per cent increase in cash sales
- 13 new warehouse stores opened, 31 upgraded or refurbished
- Improved business effectiveness and efficiency
- Strong improvements in product range development
- A network of 11 stand-alone trade distribution sites is now in place
- Phase one of inventory and business systems upgrade completed

- Coal earnings down 41.5 per cent
- Continued growth in metallurgical coal sales
- Production of coal limited by infrastructure constraints and the upgrade of Curragh Coal Handling and Preparation Plant
- Completion of Curragh North materials handling project
- Premier Coal sales volumes reduced in line with long-term supply to Verve Energy
- Construction completed on char demonstration plant
- Commenced Bengalla expansion study
- Active in coal industry support of clean coal technologies

- Revenue growth achieved over last year despite a difficult year with softening insurance market and increased competition
- Significant Event claims – Newcastle and Victorian floods impacted claims expenses and year end results
- Continued acquisition of a number of niche distribution portfolios in the broker market
- Acquired OAMPS, leading broker operating in Australia and UK
- Acquired Crombie Lockwood, leading broker operating in New Zealand

- 18.3 per cent increase in earnings
- 3 percentage points lift in return on capital to 15.6 per cent
- Acquired Bullivants, Australia's leading supplier of material handling, lifting and rigging products and services
- Division restructuring largely complete
- Product range rationalised by over 50 per cent
- Delivery In Full On Time improved 10 percentage points through upgrades to logistics, systems and distribution networks
- Global Sourcing Office established in China

- Chemicals business earnings adversely impacted by planned and unplanned ammonia plant shut downs
- Fertiliser volumes reduced due to late seasonal rainfall, however, improved earnings resulted from cost containment
- Expansion of CSBP's ammonium nitrate facility at Kwinana, Western Australia, progressing on schedule. The project will increase production capacity by 235,000 tonnes per annum
- Record production and financial contribution from Queensland Nitrates joint venture
- Divestment of chlor-alkali plant

- Earnings before interest and tax were up by 52.6 per cent
- Completed \$500 million acquisition of Coregas, a major national producer and distributor of industrial, medical and scientific gases
- \$138 million vertically integrated LNG project commenced
- Kleenheat Gas delivered slight volume growth in Kwik-Gas cylinder exchange and autogas markets
- Wesfarmers LPG increased earnings and production of LPG
- enGen continued expanding through construction of new power stations in regional Western Australia

**Wespine** - Earnings down 15.9 per cent  
Completed project to improve yields and quality  
Commenced project to expand production capacity

**Gresham** - Earnings of \$2.5 million pre-tax  
One divestment and one acquisition made by Gresham's private equity funds

**Bunnings Warehouse Property Trust** - 36.3 per cent increase in pre-tax contribution

## Future directions

- Continue to open between 10 to 14 warehouse stores per year
- Continue with store network refurbishment programme
- Enhance and expand products and services offered
- Expand trade business
- Complete the upgrade of business systems
- Pursue further business improvement strategies

- Strong business sustainability commitment
- Strong export market fundamentals and customer demand
- Continued export production and sales growth from Curragh
- Constrained export coal chains
- Low emissions and other value-adding technology support and development
- Positioned for future growth

- Earnings likely to continue to be constrained by competitive pressures
- Maintain business focus in selected market segments
- Continue to seek opportunities for profitable growth via acquisition
- Growth through the development of insurance and wealth creation products

- Continue to target higher growth sectors, extensions to networks and ranges of products and services
- Increase sales through improved service, delivery performance and value proposition
- Improve metropolitan sales penetration
- Complement organic growth by acquisitions

- Capitalise on strong chemical demand from the resources sector
- Enhance fertiliser sales volumes through market focused customer offer
- Pursue market growth and product diversification opportunities
- Commission duplicate ammonium nitrate facility

- Strong business sustainability focus
- Develop new LNG markets and pursue LPG growth products
- Increased role of industrial and medical gas segments
- Expand power generation activities
- Productivity and cost improvement focus

**Wespine** - Complete project to expand production capacity  
**Gresham** - Divestment of remaining assets of Private Equity Fund 1 over next few years; new investments by Private Equity Fund 2  
**Bunnings Warehouse Property Trust** - Acquire additional properties

Bunnings is the leading retailer of home and garden improvement products in Australia and New Zealand and a major supplier of building materials



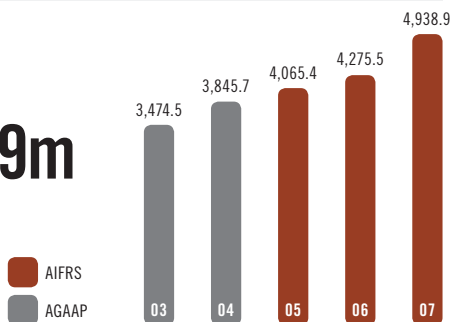
The new warehouse at Mt Roskill in New Zealand is nearing completion and features a multi-level carpark.

# Home improvement

## Revenue (\$m)

2007

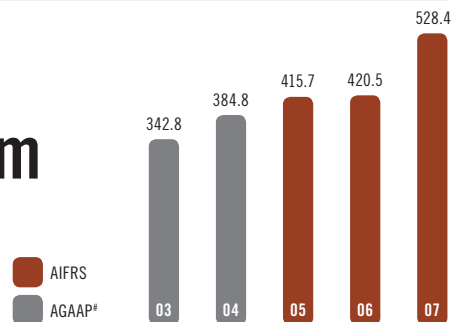
**\$4,938.9m**



## EBIT (\$m)

2007

**\$528.4m**



\*before goodwill amortisation

## THE BUSINESS

Bunnings is the leading retailer of home and garden improvement products in Australia and New Zealand and a major supplier of building materials.

Operating from a network of large warehouse stores, smaller format stores, trade distribution centres and frame & truss manufacturing sites, Bunnings caters predominantly for do-it-yourself customers as well as builders and contractors.

## STRATEGY

Bunnings provides its customers with the widest range of home and garden improvement products and is committed to delivering outstanding service and lowest prices every day. It sets out to attract high quality employees and to provide them with a safe and rewarding working environment.

Bunnings continues to develop and improve its store network through new store openings, refits of existing outlets and remerchandising initiatives. Bunnings actively seeks to widen and improve the range of products and services it offers to customers. The company is focused on making better use of working capital and lowering its cost of doing business through process and system enhancements. Lower costs and better working capital management support lower prices for customers and improved shareholder returns.

Bunnings is developing a network of trade distribution centres to support major builder customers, in conjunction with a network of frame and truss plants to ensure a full service offer is provided.

## RESULTS

Revenue for the Bunnings home improvement division increased to \$4.9 billion, 15.5 per cent higher than last year's, with trading revenue increasing by 11.9 per cent over the prior year. Earnings before interest and tax of \$528.4 million were 25.7 per cent higher. This result included a net \$53.7 million contribution from the sale of property developments in Australia and New Zealand during the year. Trading earnings before interest and tax (excluding property, WA Salvage and other non-trading items) were 16.1 per cent higher than the previous year.

Cash sales growth for the year was 13.8 per cent, with underlying store-on-store cash sales growth of 10.4 per cent. Pleasing results were recorded in all states of Australia and in New Zealand with growth being achieved across all merchandising categories.

Trade sales for the full year grew by 3.2 per cent on the previous year. Market conditions were mixed, with relatively better results in Queensland, New South Wales and Victoria

## YEAR IN BRIEF

In 2006/07, 13 new warehouse stores, three smaller format stores and one trade distribution centre were opened. At year-end there were 155 Bunnings Warehouse stores and 65 smaller Bunnings stores operating across Australia and New Zealand; and a further three HouseWorks stores in Western Australia.

During the year, 31 stores were upgraded or refreshed as part of the ongoing store network refurbishment programme which brings current building and merchandising standards into the older parts of the network. Other store development work to support enhancements and expansions to the range of products and services offered was also completed. In addition, the rebranding of the Benchmark store network in New Zealand was substantially advanced.

The establishment of a network of stand-alone trade distribution sites in Australia to service high-volume builder customers continued and, at year-end, 11 were in operation. These sites relieve the store network of high volume delivered-to-site business, freeing up space and allowing store teams to focus on pick-up trade business. Eight frame and truss manufacturing sites are also in operation in Australia.

Good progress was made throughout the year on strategies to deliver greater efficiencies and more effective operations within the business, including the successful

## JOHN GILLAM

Managing Director  
Home improvement  
division

### Key financial indicators

	03	04	05	06	07
Revenue (\$m)	3,474.5	3,845.7	4,065.4	4,275.5	<b>4,938.9</b>
Earnings before interest and tax (\$m) <sup>#</sup>	342.8	384.8	415.7	420.5	<b>528.4</b>
Capital employed (\$m)	1,874.2	1,770.4	1,786.4	1,838.0	<b>1,878.5</b>
Return on capital employed (%)	18.3	21.7	23.3	22.9	<b>28.1</b>
Capital expenditure (\$m)	84.5	97.9	183.9	222.3	<b>196.3</b>

■ AIFRS ■ AGAAP

<sup>#</sup>2003 to 2004 before goodwill amortisation



implementation of phase one of new inventory, warehouse management and business systems. Other highlights included continued positive trends in shrinkage levels, inventory disciplines, supply chain enhancements and in-store process improvements.

Steady progress continues in developing the new HouseWorks retail concept. WA Salvage, a bargain hardware and variety retail chain that operated in Western Australia, was closed during the year.

### BUSINESS SUSTAINABILITY

Bunnings' commitment to environmental responsibility and supporting the community continued in 2006/07.

In May this year Bunnings announced a further \$8 million commitment in new environmental initiatives involving:

- plans to re-fit every Bunnings Warehouse store in mainland Australia (excluding stores located in the tropics) with rainwater harvesting systems at a cost of approximately \$6 million over two years;
- a goal of becoming carbon neutral by 2015 or earlier with new programmes, including a research partnership with Murdoch University, to accelerate the drive to achieve the goal at a cost of approximately \$2 million over two years; and
- inviting submissions and offering grants to develop carbon offsetting projects.

These new initiatives build on work already undertaken in areas such as timber procurement and plastic bag, energy, waste and water reduction.



Team member, Sascha Gouder, shows a customer the new carpet range at the Box Hill warehouse, Victoria.

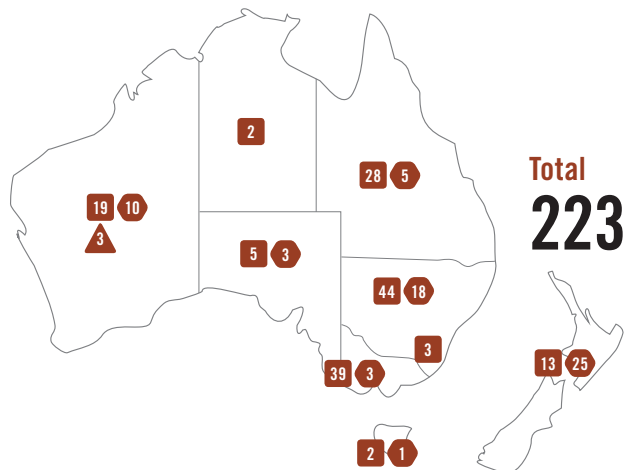
## Home improvement

### Business websites

- [www.bunnings.com.au](http://www.bunnings.com.au)
- [www.bunnings.co.nz](http://www.bunnings.co.nz)
- [www.houseworksco.com.au](http://www.houseworksco.com.au)

### Locations

- Warehouses
- Small Format Stores
- ▲ HouseWorks Stores





Team member, Susan Gillow and a customer in the lighting department at the Box Hill warehouse, Victoria.

Bunnings continued its support of local communities in 2006/07 in a variety of ways. Over \$4 million was raised by several thousand community groups through sausage sizzles conducted at Bunnings stores on weekends and public holidays. Through direct donations and sponsorships in excess of \$2.5 million was also contributed together with donations of employee time to a large number of community projects. Significant fundraising activities included \$230,000 raised for the Australasian Fire Authorities Council for the training of volunteer firefighters and \$120,000 for breast cancer research raised through the sale of pink light globes for the National Breast Cancer Foundation's Porches in Pink appeal.

With over 24,000 employees and a continually expanding store network, issues of safety, recruitment, training and development receive a high priority. A number of new development programmes were introduced into the business during the year. There is also a strong focus on skills training covering service, product knowledge and systems and procedures. Safety receives a very high profile in the business through the B.S.A.F.E. programme, although, it remains a significant challenge for the business as the rolling 12 month lost time injury frequency rate for the year increased to 14.4, compared to 12.4 last year. The 12 month all injuries frequency rate also increased to 51.1 from 50.7.

## Outlook

The outlook for the home improvement business in 2007/08 is for continued retail sales growth, with an increased contribution from the trade business.

New warehouse development is forecast to continue at between 10 to 14 warehouse stores per year and the store network refurbishment programme is ongoing with plans to upgrade and refresh around 30 stores in 2007/08.

## Growth strategies

### Improving customer service

Continued focus on lifting selling skills, improving labour availability and providing better product and project information.

### Team member performance

Ongoing execution of B.S.A.F.E. safety and compliance programmes, and increased team member training investment.

### Profitable sales growth

Continued retail network expansion from new store openings. Trade strategy ongoing with the establishment of more large scale trade distribution centres.

### Business improvements to lower costs

Ongoing execution of systems upgrade implementation, supply chain and other business improvement projects,

### Innovation and improvement of the offer

Category development in flooring, plumbing, lighting, special orders and services.

Continue store upgrades and store refreshes.

with increased focus on on-line recruitment and driving energy efficiency benefits.

Wesfarmers' coal division owns and operates the Curragh mine in Queensland, the Premier mine in Western Australia and has a 40 per cent interest in the Bengalla mine in New South Wales



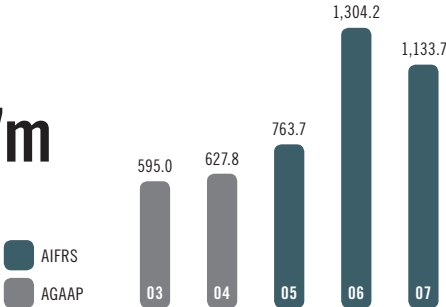
Coal mining operations at the Curragh North mine, at Blackwater, Queensland.

# Coal

## Revenue (\$m)

2007

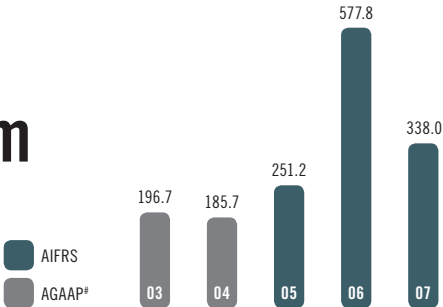
**\$1,133.7m**



## EBIT (\$m)

2007

**\$338.0m**



\*before goodwill amortisation

## THE BUSINESS

Wesfarmers Coal's interests comprise the Curragh mine in Queensland's Bowen Basin (metallurgical and steaming coal for export and domestic markets), the Premier mine at Collie in Western Australia's south west (steaming coal for domestic markets) and a 40 per cent interest in the Bengalla mine in the Hunter Valley of New South Wales (steaming coal for both export and domestic markets).

## STRATEGY

Wesfarmers Coal's vision is to be a high performance resource company delivering shareholder value through initiative, innovation and growth.

## RESULTS

Revenue from the division decreased to \$1.1 billion, 13.1 per cent below last year. Earnings before interest and tax of \$338.0 million were 41.5 per cent lower than the \$577.8 million earned last year. Lower export coal sales prices from Curragh, foreshadowed in May 2006, were the major factor in the result in 2006/07. Demurrage costs for the division amounted to \$17.9 million for the year, \$6.7 million more than in 2005/06.

**Curragh:** Total coal sales volumes from Curragh of 8.7 million tonnes (6.5 million metallurgical and 2.2 million steaming) were 1.5 per cent above those achieved in 2005/06. Earnings for the year were 44.5 per cent below last year's record, due to lower prices and increased costs, which were partly offset by higher sales volumes.

**Premier:** Steaming coal sales volumes of 3.0 million tonnes in 2006/07 were 20 per cent lower than last year. Earnings were 25.8 per cent lower than last year's as a result of decreased deliveries to Verve Energy, due to the closure in April 2007 of units A and B of the Muja Power Station in Western Australia.

**Bengalla:** Joint venture steaming coal sales volumes of 5.5 million tonnes (4.5 million export and 1.0 million domestic) were slightly higher than last year's while earnings decreased 24.1 per cent, largely as a result of costs resulting from continued infrastructure constraints and flooding in June.

## YEAR IN BRIEF

**Curragh:** Highlights included continued metallurgical coal sales volume growth and the completion of the 20 kilometre conveyor and coal handling system to transport coal to Curragh from Curragh North. This was the last major component of the Curragh North Project which has been completed within the budgeted capital cost of \$360 million. Annual price negotiations were concluded by April 2007, with Curragh maintaining, and in many cases extending, long-term contracts to supply world-leading steelmakers in Asia, Europe and South America. Curragh was successful in maintaining hard coking coal price relativities in those negotiations. Curragh is beginning a feasibility study into the expansion of the mine to achieve annual export tonnages of between 8.0 and 8.5 million tonnes of metallurgical coal. Details of coal resources and reserves are included on page 138 of this Annual Report.

**Premier:** Deliveries under the extended long-term coal contract with Verve Energy commenced in April 2006 and are expected to run to 2030. Construction of a 50,000 tonnes per annum char demonstration plant was completed during the year. Coal entering the plant is enhanced to produce a high carbon product for use in domestic and offshore metallurgical markets.

**Bengalla:** Approval to modify Bengalla's Development Consent was obtained during the year. This will potentially allow the mine to increase production to 10.7 million tonnes per annum of run-of-mine coal. A final decision on the expansion depends on the availability of adequate rail and port infrastructure.

## BUSINESS SUSTAINABILITY

All businesses within the division adopt a zero lost time injuries target. During the year the division continued to develop programmes aimed at reducing workplace injuries. Pleasingly, both the Curragh and Premier operations were able to achieve a reduction in lost time injuries.

## STEWART BUTEL

Managing Director  
Coal division



## Key financial indicators

	03	04	05	06	07
Revenue (\$m)	595.0	627.8	763.7	1,304.2	1,133.7
Earnings before interest and tax (\$m) <sup>#</sup>	196.7	185.7	251.2	577.8	338.0
Capital employed (\$m)	660.8	606.8	522.7	737.5	870.1
Return on capital employed (%)	29.8	30.6	48.1	78.3	38.8
Capital expenditure (\$m)	36.5	38.5	189.3	236.5	178.4

■ AIFRS ■ AGAAP

<sup>#</sup>2003 to 2004 before goodwill amortisation

Wesfarmers Coal is continuing to look for more opportunities to reduce greenhouse gas emissions and targets ongoing environmental best practice and continuous improvement in its own operations. The division is committed to being open and transparent in this process with additional detailed information provided in the Wesfarmers Sustainability Report that is released each year. Wesfarmers Coal has been examining practical ways of reducing emissions through both its rehabilitation efforts and other initiatives such as:

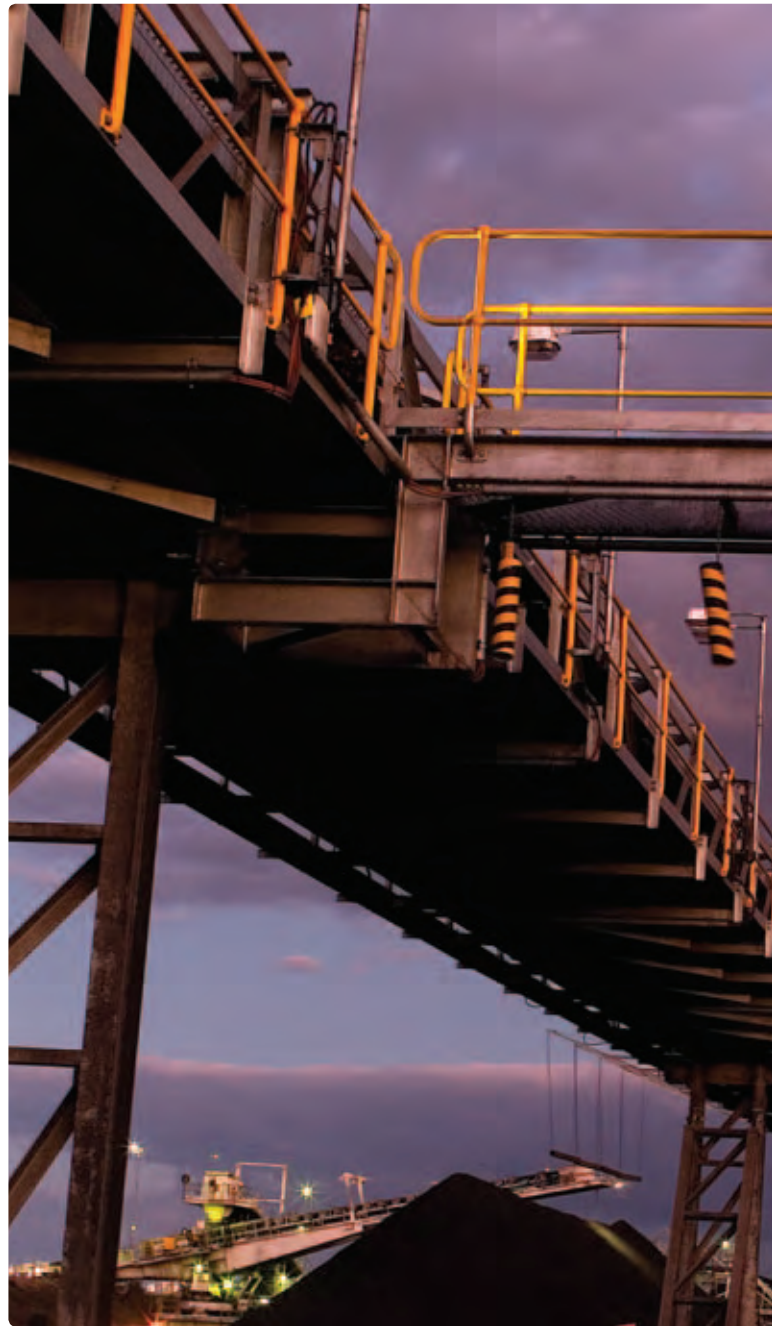
- the purchase of more efficient and modern equipment;
- significantly reducing fuel and oil losses (eg. use of a fuel management system and major waste oil reduction programme) and the use of bio-diesel;
- the rehabilitation of mined areas as soon as practical; and
- participating in the COAL21 programme and the Greenhouse Challenge Plus.

Wesfarmers Coal's businesses also focus on contributing to the communities in which they operate.

During the year, Premier Coal has provided direct financial support to numerous sporting associations, schools, clubs, festivals and heritage projects.

In addition, funding and management support was provided to the Collie Centre of Excellence in Sustainable Mine Lakes, a research group focused on mine lake rehabilitation, remediation techniques and end use options. In association with this group, good progress was made in the rehabilitation of Lake Kepwari, a former mine void, and the planning towards the eventual handover of this valuable asset to the local community. The lake has a surface area of some 103 hectares and is well suited to water sports such as skiing and rowing.

Curragh contributed to several community organisations during the year, including a major donation to establish a new \$9 million state-of-the-art International Coal Centre in Queensland's Blackwater, which will raise awareness of the coal industry's activities and achievements.



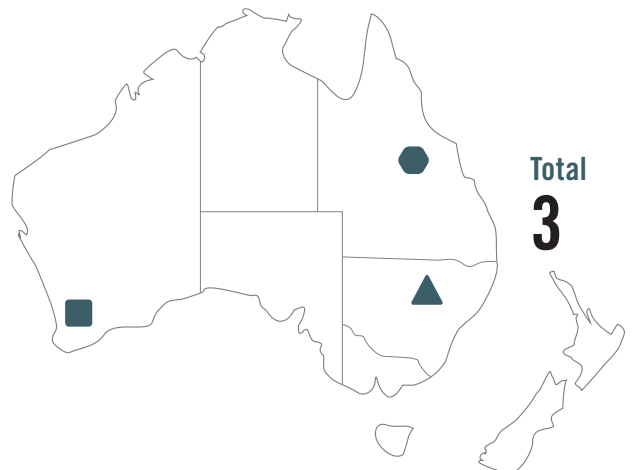
## Coal

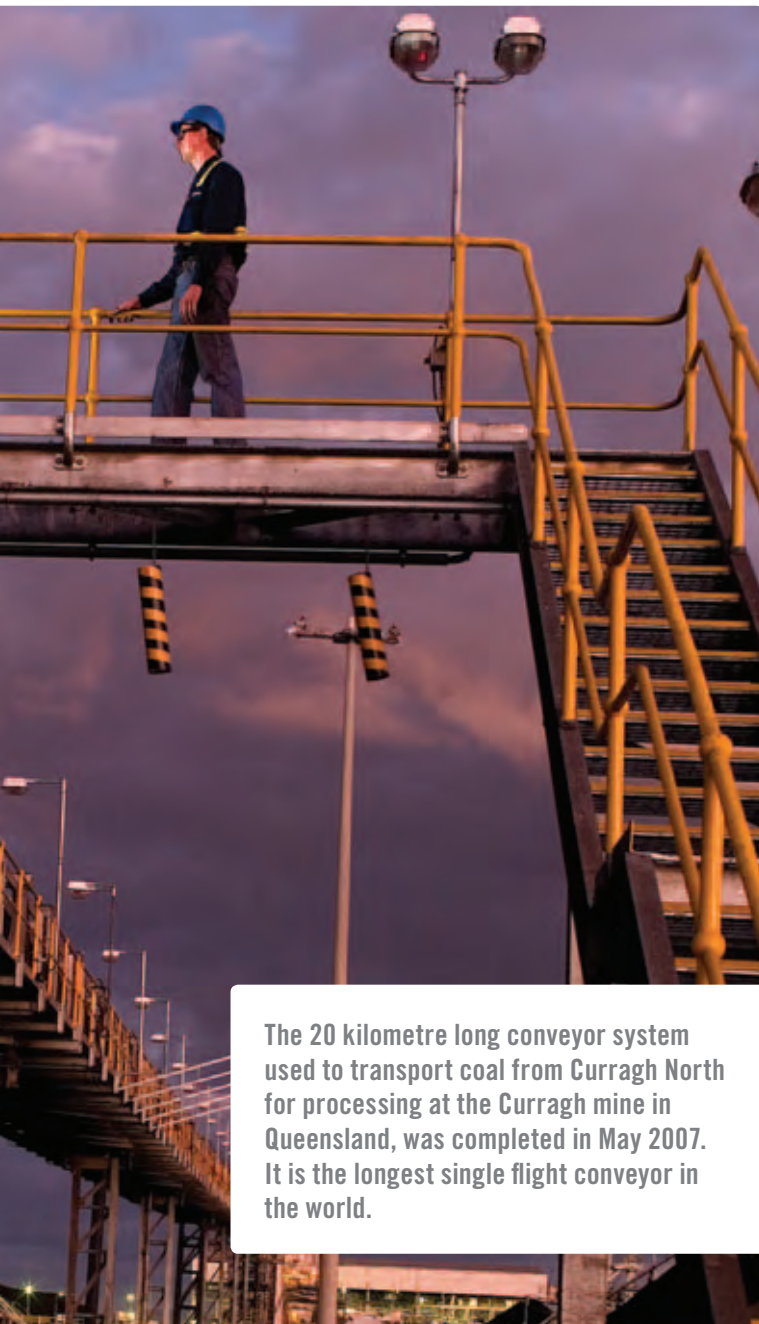
### Business websites

[www.wesfarmerscoal.com.au](http://www.wesfarmerscoal.com.au)

### Locations

- Premier Coal
- Curragh
- ▲ Bengalla (40%)





The 20 kilometre long conveyor system used to transport coal from Curragh North for processing at the Curragh mine in Queensland, was completed in May 2007. It is the longest single flight conveyor in the world.



A new excavator was commissioned at the Premier Coal mine, at Collie, Western Australia.

## Outlook

Coal earnings will be adversely affected due to lower prices applying for the first three quarters of the 2007/08 financial year. Thereafter, earnings should benefit from strong export market fundamentals and customer demand.

Metallurgical coal sales from the Curragh mine will continue to increase with near term growth influenced by levels of performance from rail and port infrastructure.

## Growth strategies

Continuous improvement of ongoing operations.

Evaluate the potential expansion of the Curragh and Bengalla mines.

Maximise metallurgical coal export sales from the Curragh mine.

Develop and commercialise Wesfarmers Char plant.

Evaluate acquisitions that offer economies of scale or downstream benefit.

Wesfarmers' insurance division comprises three insurance companies, two insurance brokers, two premium funding businesses, superannuation and financial planning services and an insurance software developer



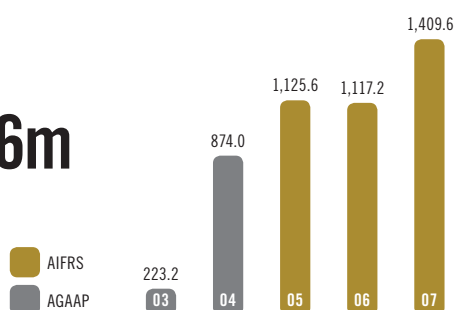
OAMPS was awarded 'Supplier of the Year' for the development of 'Nurserypac', an insurance product specifically for the nursery and garden industry. OAMPS Portfolio Manager, Debra Dickson, with nursery owner, Jamie Benney, at his business in Geelong, Victoria.

# Insurance

## Revenue (\$m)

2007

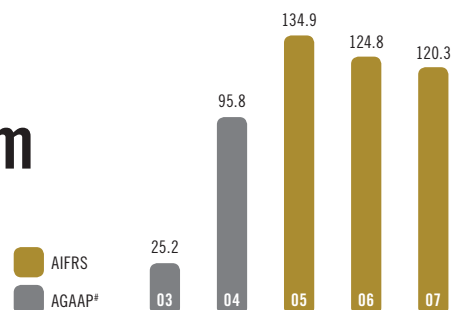
**\$1,409.6m**



## EBIT (\$m)

2007

**\$120.3m**



\*before goodwill amortisation

## THE BUSINESS

Wesfarmers' insurance division comprises three general insurance companies, two general insurance brokers, two premium funding businesses, superannuation and financial planning services and an insurance software developer.

The insurance operations include Wesfarmers Federation Insurance, Lumley General Insurance Australia and Lumley General Insurance New Zealand. The broking businesses are OAMPS Australia, OAMPS UK and Crombie Lockwood in New Zealand. The superannuation and financial planning businesses operate under the OAMPS banner. The premium funding businesses operate as Lumley Finance in both Australia and New Zealand.

The insurance division also includes a specialist general insurance software developer, Koukia, which is majority-owned by Wesfarmers.

## STRATEGY

In Australia, the group's insurance operations serve both the direct and intermediary distribution channels. Wesfarmers Federation Insurance distributes its insurance products and services directly to rural and provincial Australia whilst Lumley General Insurance Australia and Lumley General Insurance New Zealand focus on sales through agents and brokers, specialising in the fleet and commercial motor, engineering and marine sectors.

The broking businesses operate throughout Australasia and in the UK and service all aspects of clients' insurance needs. OAMPS and Crombie Lockwood are recognised as leaders in the insurance broking industry.

The premium funding businesses complement the general insurance product range.

Koukia aims to provide a world class general insurance software package to insurers world-wide.

All activities are underpinned by the requirement to achieve profitable returns in line with Wesfarmers' key objective.

## RESULTS

The insurance division achieved revenue of \$1.4 billion with solid support from targeted market sectors. The earnings contribution before interest, tax and amortisation was \$130.0 million.

The divisional insurance margin was 9.5 per cent and the combined operating ratio (COR) was 94.2 per cent. This compares with the previous corresponding period when revenue was \$1.1 billion with earnings before interest, tax and amortisation of \$124.8 million whilst the divisional insurance margin was 14.9 per cent and the COR 88.1 per cent.

Amortisation of intangibles of \$9.8 million associated with recent acquisitions resulted in earnings before interest and tax for the year of \$120.3 million compared with \$124.8 million for the previous corresponding period.

## YEAR IN BRIEF

Lumley General Insurance Australia's results were impacted by higher than expected claims as a result of the storms in Newcastle and Victoria and Cyclone George in Western Australia. While good revenue growth was achieved, the market was very competitive with discounting of premiums prevalent across all portfolios and particularly the commercial motor, property and liability portfolios. Good growth was underpinned by the integration of the Australian International Insurance Limited portfolio and new agencies Dual and Nautilus. The insurance margin decreased to 7.0 per cent compared with last year's 17.1 per cent as claim ratios increased. Net Earned Premium (NEP) increased by 7.8 per cent compared with the previous corresponding period.

Lumley General Insurance New Zealand's results were substantially impacted by intense competition and falling premium rates. Commercial motor rates fell further during the year. The insurance margin decreased to 5.2 per cent compared with last year's 13.0 per cent, due to reduced premium, higher claims and write-offs of capitalised information technology costs. The challenging trading environment placed pressure on loss and expense ratios culminating in a disappointing overall profit margin. In response, plans were put in place to mitigate this.

## ROB SCOTT

Managing Director  
Insurance division



### Key financial indicators

	03	04	05	06	07
Revenue (\$m)	223.2	874.0	1,125.6	1,117.2	<b>1,409.6</b>
Earnings before interest and tax (\$m) <sup>#</sup>	25.2	95.8	134.9	124.8	<b>120.3</b>
Capital employed (\$m)	38.3	389.8	430.8	403.6	<b>763.6</b>
Return on capital employed (%)	65.8	24.6	31.3	30.9	<b>15.8</b>
Capital expenditure (\$m)	2.6	7.6	14.1	20.8	<b>14.9</b>

■ AIFRS ■ AGAAP

<sup>#</sup>2003 to 2004 before goodwill amortisation



Wesfarmers Federation Insurance generated a record profit despite a modest agricultural growing season and lower business confidence in drought-affected regional areas. The results were also affected by several significant events, including Newcastle and Victorian storms and bushfires in Western Australia. Growth was achieved from the expanded national distribution network and the insurance margin increased slightly to 16.1 per cent compared with 15.7 per cent in the previous corresponding period. NEP increased by 2.5 per cent over the previous year. Alliances were formed with a number of new partners during the year.

Earnings contribution from OAMPS and Crombie Lockwood, acquired in November 2006 and March 2007 respectively, were in line with expectations.

OAMPS Australia performed well in the face of competitive market conditions. With its successful integration into the division largely complete, the broking business is in a strong position for further growth. The United Kingdom operation continued to expand organically and, combined with a small bolt-on acquisition, delivered increased earnings for the year, despite a decline in rates.

Crombie Lockwood's strong earnings from March were supported by the acquisition of the Law Mooney Williamson insurance broking business. Generally lower premiums were offset by new business growth to produce an acceptable level of brokerage income.

The premium funding operations performed well in a very competitive environment. In addition to their positive contribution to profit, these businesses facilitate a broader relationship with supporting brokers.



Lumley Insurance Marine Development Underwriter Jodie Drinnan with a client at Rozelle Bay, New South Wales.

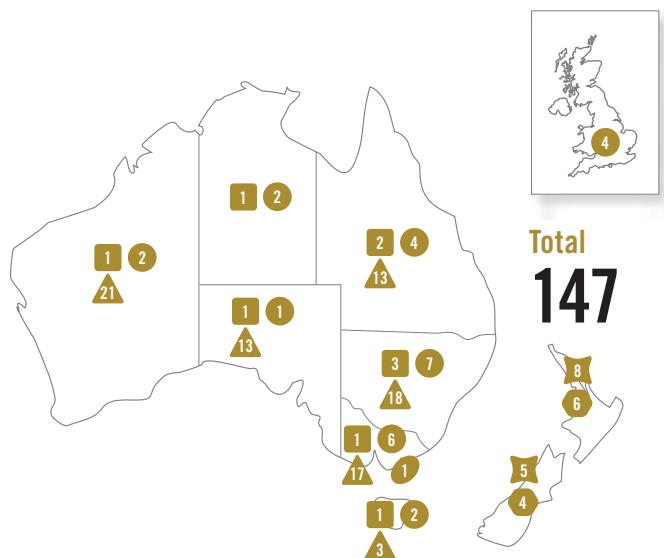
## Insurance

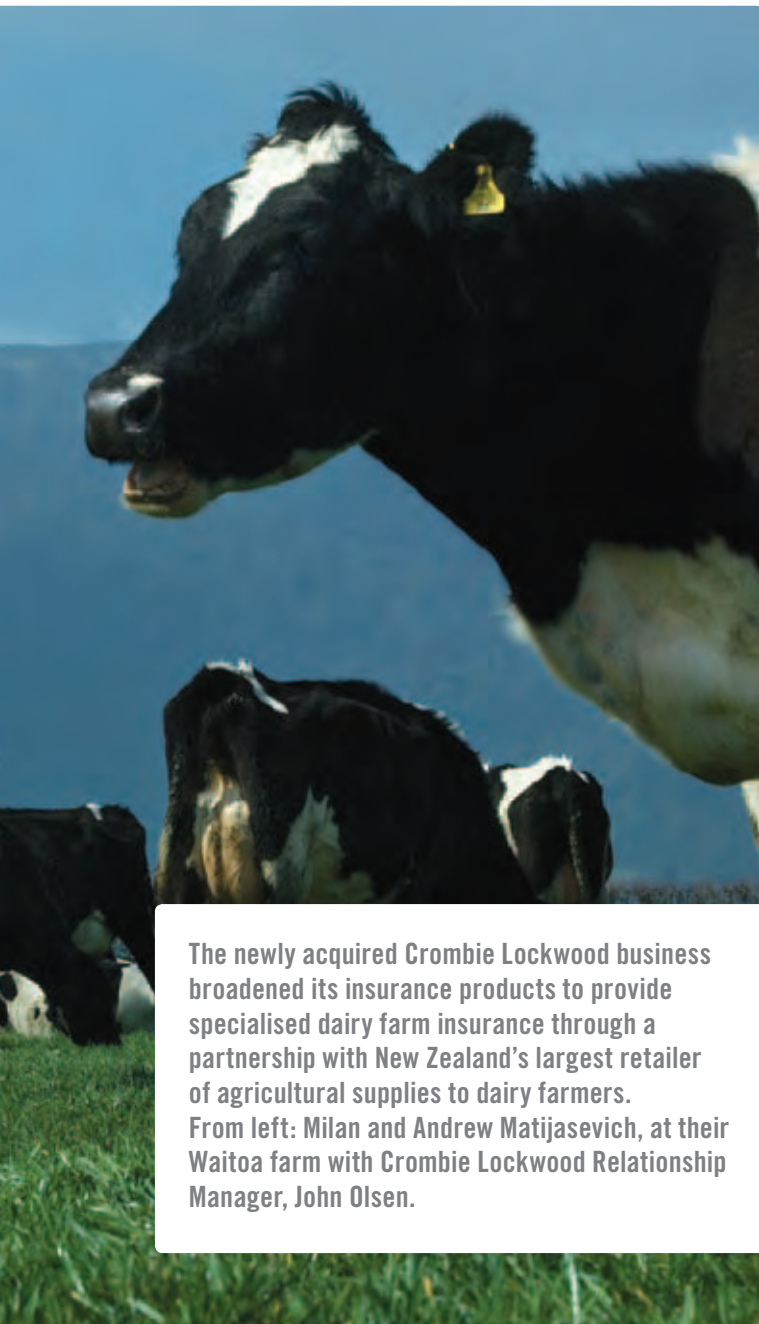
### Business websites

www.wfi.com.au  
 www.lumley.com.au  
 www.lumley.co.nz  
 www.oamps.com.au  
 www.crombielockwood.co.nz  
 www.koukia.com.au

### Locations

- Lumley General Australia
- Lumley General New Zealand
- ▲ Wesfarmers Federation Insurance
- OAMPS
- Crombie Lockwood
- Koukia





The newly acquired Crombie Lockwood business broadened its insurance products to provide specialised dairy farm insurance through a partnership with New Zealand's largest retailer of agricultural supplies to dairy farmers. From left: Milan and Andrew Matijasevich, at their Waitoa farm with Crombie Lockwood Relationship Manager, John Olsen.

Koukia continued its development of a new general insurance software technology, with a high level of interest from potential Australian and overseas customers.

**BUSINESS SUSTAINABILITY**

Driver safety is a key social and commercial sustainability issue and as a leader in commercial motor insurance, Lumley Australia continued its long-term sponsorship of the Road Transport Forum and partnership with the Collision Repair Association. Membership of Lumley's Fleet Risk Management Benchmark Club has been expanded, providing access to a wealth of information in our claims and accident reporting databases. In addition, Drivacam, an exclusive new interactive driver training and fleet management safety tool, was introduced.

A voluntary team of staff has been established within many of the businesses to take environmental and social responsibility initiatives forward.

OAMPS provides financial support to youth development programmes.

**Outlook**

Earnings are expected to increase in 2007/08 following a full year contribution from recent acquisitions. Underwriting performance is likely to be constrained by competitive pressures and the level of claims. The outlook for crop insurance is positive on the expectation of improved weather patterns. Efficiency gains are expected in both underwriting and broking activities as a result of the recent acquisitions.

New business growth is expected from Lumley General Insurance Australia's online initiatives with brokers and new product initiatives across the division. Opportunities for profitable growth through acquisitions that meet investment criteria will continue to be explored.

**Growth strategies**

**Expand the range of services by evaluating opportunities to add broader financial services to the portfolio.**

**Further enhancements to claims handling processes to improve service and efficiency.**

**Further development of direct business opportunities through on-line direct customer capabilities.**

**Focus on working with key business partners to develop tailored customer solutions.**

**Improve customer service by deploying electronic data interface solution to brokers.**

Wesfarmers' industrial and safety division is the leading supplier of engineering products and industrial consumables, safety, packaging, materials handling and lifting products and services in Australia and New Zealand



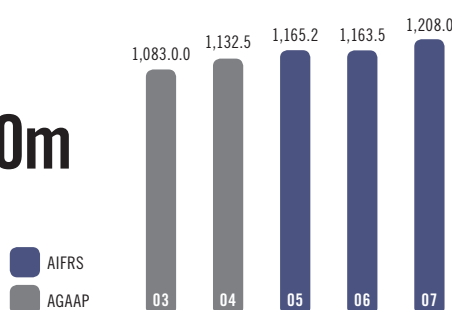
Protector Alsafe Registered Training Organisation Manager, Andrew Goodlace, at the new safety training centre, at Chipping Norton, New South Wales.

# Industrial and safety

## Revenue (\$m)\*

2007

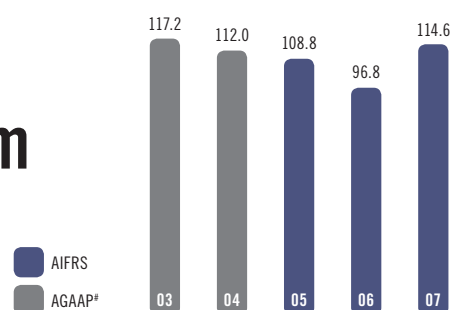
**\$1,208.0m**



## EBIT (\$m)

2007

**\$114.6m**



\*2003 to 2006 revenues have been restated to improve comparability between reporting periods.

\*before goodwill amortisation

## THE BUSINESS

Wesfarmers Industrial and Safety comprises nine businesses, that together make the division the leading supplier of engineering products and industrial consumables, safety, packaging, materials handling and lifting products and services to industry and government across Australia and New Zealand.

Blackwoods is the leading single source supplier of engineering, industrial consumables and safety products in Australia with a value proposition of "All Your Workplace Needs". Complementing Blackwoods in Australia are four major national specialists: Bullivants (materials handling, lifting and rigging products and services); Protector Alsafe (safety products and training services); Mullings Fasteners; and Motion Industries (bearings and power transmission solutions).

In New Zealand, Blackwoods Paykels is the largest single source engineering, industrial consumables and safety products supplier. It is complemented by leading specialist distributors: New Zealand Safety and Protector Safety (safety products and services) and Packaging House (packaging and hygiene products).

## STRATEGY

Wesfarmers Industrial and Safety, through nationwide single source distributors, delivers a value proposition of saving customers' time and expense with fast delivery of all their workplace needs. Complementing this, leading specialist distributors provide excellent technical advice and product solutions in selected key product categories.

As well as further improving business efficiencies, each business is now firmly focused on growing customer sales through new or improved service and product range offerings. The division will continue to expand its presence in higher growth sectors. In addition to organic growth, the division will also explore acquisition opportunities that generate good returns by increasing market share or expanding its sector or product base.

## RESULTS

Revenue for the industrial and safety division for the 2006/07 year increased to \$1.2 billion following sales growth of 8.7 per cent in the second half.

Earnings before interest and tax of \$114.6 million were 18.3 per cent higher than last year's due to stronger performance from Blackwoods, Protector Alsafe and Blackwoods Paykels, the inclusion of Bullivants from January and net property income associated with capital management initiatives exceeding restructuring costs.

After taking into account the increased capital associated with Bullivants, the total working capital of the division continued to decrease with an overall reduction of 13.0 per cent, driven by strong inventory management. Return on capital was up three percentage points to 15.6 per cent.

Blackwoods had a better year, with sales and earnings growth aided by strong improvement in delivery performance and the winning of new contracts, particularly in Queensland and Western Australia. Trading performance in other states, despite improving in the second half, was dampened by lower automotive and construction activity.

Protector Alsafe's sales and earnings were ahead of last year's with adverse pressure from ongoing commoditisation and a very competitive environment offset by efficiency gains and strong performance in customer service. Mullings Fasteners' sales were in line with last year's, but earnings were lower in a highly competitive environment. Motion Industries' sales and earnings were below those recorded last year due largely to customer decisions to delay their shutdown maintenance.

The results for the New Zealand-based businesses were below last year's despite improvements in all businesses in the second half. Blackwoods Paykels continued its turnaround with strong productivity improvements lifting earnings. Packaging House sales were marginally ahead of last year's, but earnings were slightly below in a highly competitive environment. NZ Safety and Protector Safety managed to retain market share but earnings were disappointingly lower due to a vigorously contested contract environment.

## TERRY BOWEN

Managing Director  
Industrial and  
safety division



### Key financial indicators

	03	04	05	06	07
Revenue (\$m)*	1,083.0	1,132.5	1,165.2	1,163.5	<b>1,208.0</b>
Earnings before interest and tax (\$m)#	117.2	112.0	108.8	96.8	<b>114.6</b>
Capital employed (\$m)	797.3	814.1	797.9	769.1	<b>734.4</b>
Return on capital employed (%)	14.7	13.8	13.6	12.6	<b>15.6</b>
Capital expenditure (\$m)	25.4	23.1	16.6	16.3	<b>25.8</b>

■ AIFRS ■ AGAAP

\*2003 to 2006 revenues have been restated to improve comparability between reporting periods.  
#2003 to 2004 before goodwill amortisation

During the year the division expanded its specialist expertise, adding strong lifting and rigging product and service capability through the acquisition of Bullivants.

Bullivants' sales and earnings performance were in line with projections and the business continued to grow. Progress of integration work and realisation of synergies were ahead of plan.

### YEAR IN BRIEF

Restructuring of the division into a business unit structure, initiated in February 2006, produced a strong focus on markets and customers from each business and good progress on improvement programmes.

Improving customer delivery service levels was a key priority with every business achieving better results and an overall lift of 10 percentage points to above competitor benchmark levels. Major initiatives included the rationalisation of duplicated product lines resulting in stockable items reducing by more than 50 per cent, information systems development and the upgrade of facilities, including state-of-the-art distribution centres for Blackwoods and Protector Alsafe in Queensland.

Productivity improvements continued to be made in support areas through process redesign, as well as the rationalisation of a number of small branches.

Sales growth was pursued with the addition of 36 new account managers across the division and product range extension, including the launch of Protector Alsafe Training Services. This was supported by new catalogues and websites for Blackwoods, Protector Safety, Bullivants, Blackwoods Paykels and Packaging House, as well as network upgrades.

Each business strengthened its product sourcing and marketing through increasing the capability of category management teams. The division's existing direct sourcing programme took a significant step forward during the year with the opening of the Shanghai-based Global Sourcing Office.

### BUSINESS SUSTAINABILITY

Staff turnover improved in most businesses during the year, with the only exceptions being those locations close to mine sites which generally experienced labour shortages and high demand.



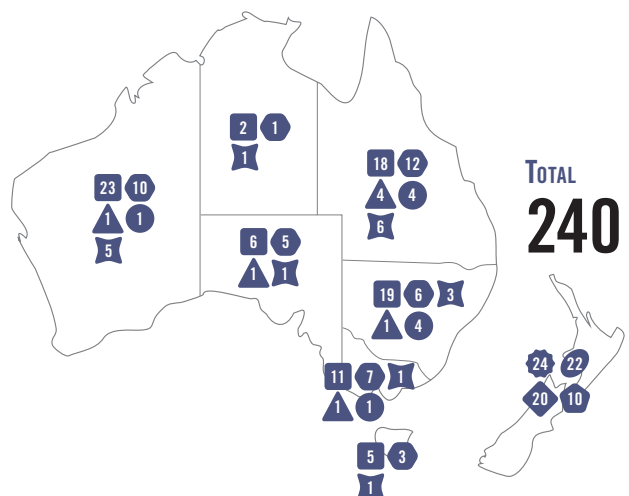
## Industrial and safety

### Business websites

[www.blackwoods.com.au](http://www.blackwoods.com.au)  
[www.bullivants.com](http://www.bullivants.com)  
[www.protectoralsafe.com.au](http://www.protectoralsafe.com.au)  
[www.mullings.com.au](http://www.mullings.com.au)  
[www.motionind.com.au](http://www.motionind.com.au)  
[www.blackwoodspaykels.co.nz](http://www.blackwoodspaykels.co.nz)  
[www.nzsafety.co.nz](http://www.nzsafety.co.nz)  
[www.packaginghouse.co.nz](http://www.packaginghouse.co.nz)  
[www.protectorsafety.co.nz](http://www.protectorsafety.co.nz)

### Locations

- Blackwoods
- NZ Safety
- Protector Alsafe
- Protector Safety
- ▲ Motion
- ◆ Blackwoods Paykels (NZ)
- Mullings
- Packaging House
- ✦ Bullivants (included since 2007)





The new state-of-the-art warehousing operations at the Blackwoods distribution centre, at Carole Park, Queensland.

Consistent with our objective of recruiting and retaining quality employees, a number of initiatives were deployed, including improved induction processes, new residential development programmes for managers, as well as a number of health and well-being initiatives. In addition, variable incentive schemes continued to be upgraded to better encourage and reward performance.

Safety remains a key focus area through the implementation of the division's "GetSAFE" programme. Lost time injuries were at a record low, 20 per cent below the previous year's with a lost time injury frequency rate of 4.4 (including Bullivants for seven months).

The division's sustainability practices were further enhanced during the year with all new facility constructions incorporating energy and water efficient designs. The division also engaged the broader community in service initiatives, including Clean Up Australia.

## Outlook

Stronger platforms built over the last 12 months have already benefited the division, enabling it to strengthen its competitive position. Ongoing work, particularly in procurement, logistics and service is expected to provide further value for customers. Each business is firmly focused on growth and in 2007/08 the division will have the benefit of a full year's result from Bullivants.

While strong resource activity is expected to continue, traditional manufacturing markets, particularly in the automotive industry, are likely to remain subdued.

## Growth strategies

**Continue to target higher growth sectors with selected extensions to the division's networks and ranges of products and services.**

**Improve metropolitan sales performance.**

**Increase sales to existing customers through improved customer service, delivery performance and value proposition.**

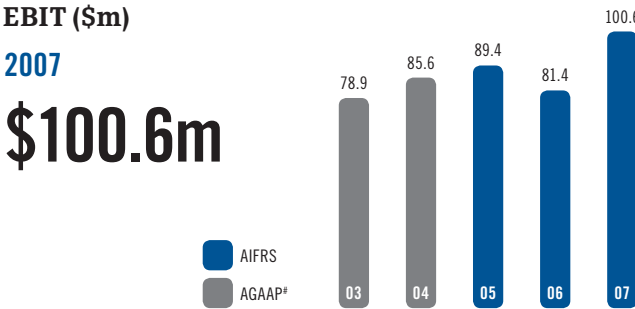
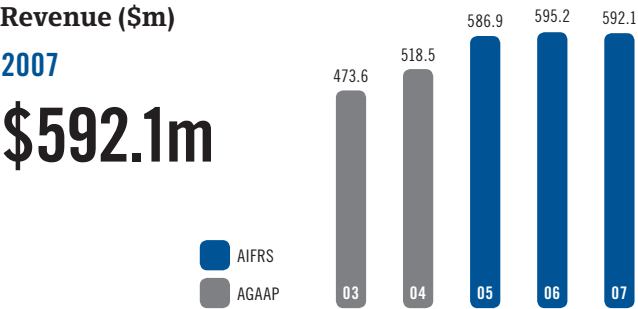
**Complement organic growth by acquisitions.**

CSBP is one of Australia's leading suppliers of chemicals, fertilisers and other services to the mining, industrial and agricultural sectors



CSBP Corrigin Area Manager, Mark Robinson, with farmer Gary Buller, at the family property near Bruce Rock, Western Australia.

# Chemicals and fertilisers



\*before goodwill amortisation

## THE BUSINESS

CSBP is one of Australia's leading suppliers of chemicals, fertilisers and other services to the mining, industrial and agricultural sectors.

The business is a major supplier of chemicals to the Australian resources and industrial sectors. Its principal markets include the mining, minerals processing and metals refining sectors.

CSBP manufactures and markets fertilisers, primarily for the Western Australian market, servicing the broadacre cropping, livestock, horticulture and dairy sectors.

## STRATEGY

In chemicals, CSBP's strategy is to build profitably on existing businesses and use its core competencies to develop new products and move into new markets.

In fertilisers, CSBP strives to provide Western Australian farmers with a wide range of quality fertilisers at competitive prices, supported by leading technical skills and high customer service standards.

## RESULTS

CSBP's revenue of \$592.1 million was lower than last year as a result of lower sales volumes. Earnings before interest and tax of \$100.6 million were 23.6 per cent higher than the previous year's \$81.4 million due to improved contributions from fertilisers, ammonium nitrate and Queensland Nitrates as well as the profit from the sale of the chlor-alkali business.

Despite reduced production, the chemicals business recorded earnings in 2006/07 broadly in line with the previous year. Resource sector demand remained strong, but earnings were constrained by available plant capacity. Production volumes were lower for all operations mainly as a result of planned maintenance shut downs.

An unplanned shut down of the ammonia plant in April 2007 also affected production.

Earnings from CSBP's 50 per cent interest in the Queensland Nitrates ammonium nitrate business exceeded last year's, due to improved plant operation and ongoing high product demand in Queensland.

Total fertiliser sales declined by 6.1 per cent due to high carry-forward stock held on farm from the 2005/06 season and lack of rain at the start of the growing season in Western Australia in 2007.

## YEAR IN BRIEF

### Chemicals

Strong demand for ammonium nitrate continued with sales volumes broadly in line with 2005/06. Production of ammonium nitrate from Kwinana was two per cent below the prior year's record output.

During the year construction of the new ammonium nitrate production facility at Kwinana continued with commissioning scheduled for the first half of 2007/08. The new facility will double current production with the higher output destined for the resource sector and the manufacture of the Flexi-N nitrogenous fertiliser.

Production at the Queensland Nitrates integrated ammonia/ammonium nitrates facility was significantly higher than last year's and demand for ammonium nitrate remained strong. Queensland Nitrates continues to evaluate options to increase production capacity to meet the growing market demand in Queensland.

The 75 per cent-owned Australian Gold Reagents (AGR) business recorded sodium cyanide solution sales consistent with 2005/06, while export sales of solid product were lower due to production capacity constraints and a cessation of third-party product sourcing arrangements. AGR has negotiated off-take for the Boddington gold project which will support an increase in production capacity of sodium cyanide solution.

During the year, CSBP divested its chlor-alkali business. CSBP continues to toll manufacture sodium hypochlorite, under contract, and distribute a range of bulk industrial chemicals.

In September 2007, CSBP acquired Australian Vinyls Corporation (AVC) for \$137.7 million. AVC is the only manufacturer of poly vinyl chloride (PVC) in Australia and also imports PVC and related products. It also owns Australia's only manufacturer of wood plastic composites, ModWood, which manufactures products used in decking and fencing.

### KEITH GORDON

Managing Director  
Chemicals and fertilisers  
division



### Key financial indicators

	03	04	05	06	07
Revenue (\$m)	473.6	518.5	586.9	595.2	592.1
Earnings before interest and tax (\$m) <sup>#</sup>	78.9	85.6	89.4	81.4	100.6
Capital employed (\$m)	491.1	482.6	493.9	540.4	604.2
Return on capital employed (%)	16.1	17.7	18.1	15.1	16.7
Capital expenditure (\$m)	19.2	34.6	31.4	72.5	198.7

AIFRS AGAAP

<sup>#</sup>2003 to 2004 before goodwill amortisation



## Fertilisers

Despite reduced sales volumes, a greater focus on cost containment and margin management resulted in improved fertiliser earnings.

CSBP maintained a strong market-focused approach working with and through distributors, in particular AWB Landmark and Elders, to meet the varied fertiliser and agronomic needs of farmer customers. Wider product range, technical service improvements, higher service levels and competitive pricing continued to be features of CSBP's approach.

The strong demand for liquid fertiliser products, in particular Flexi-N, continued. CSBP's commitment to ongoing research and development, combined with expanding production and storage facilities, will enable it to meet the growing liquid fertiliser demand in Western Australia.

## BUSINESS SUSTAINABILITY

All plants operated within their environmental licence parameters throughout the year except for minor potential non-compliances which resulted in 16 notifications by CSBP to the Western Australian Department of Environment.

In 2007, CSBP entered into an agreement with an industrial neighbour to supply carbon dioxide from its ammonia plant, thus reducing the volume of emissions to the atmosphere.

During the year, AGR won the Premier's Award for Excellence and the Advanced Large Manufacturer Export Award at the 2006 WA Industry and Export Awards, in recognition of the company's outstanding export achievement.



Graduate Engineer, Andrew Carruthers, at the sodium cyanide plant at Kwinana, Western Australia.



## Chemicals and fertilisers

### Business websites

[www.csbp.com.au](http://www.csbp.com.au)

### Locations

#### CSBP Fertilisers

- Manufacturing plants
- Import and distribution centres
- ▲ Depots
- Regional sales representatives
- ★ Sales agents

#### CSBP Chemicals

- Manufacturing plants





**Construction of the new ammonium nitrate production facility, at Kwinana, Western Australia.**

CSBP received the Community Partnerships Award at the 2006 WA Water Awards, which recognised the company's commitment to fostering relationships with neighbouring industries and associations in order to develop sustainable water solutions.

CSBP's objective is to achieve a zero harm work environment that does not injure any of its employees. CSBP this year achieved a 20 per cent reduction in its total work place injuries and a 50 per cent decrease in lost time injuries. CSBP has also continued to implement an upgraded permit-to-work system which, in combination with risk assessment training, underpins all operational activities. A number of programmes designed to assist employees in managing fitness-for-work were also introduced. These included regular lifestyle courses, biological monitoring, random drug and alcohol testing and immunisation programmes.

As an extension of its role as a major employer and member of many local communities, CSBP entered into a significant partnership with Youth Focus, a not-for-profit organisation working with young people at risk of self harm or suicide. In addition, CSBP continued its support for education, training and a wide range of community activities.

The commitment and effort of CSBP's employees contributed strongly to business performance in 2006/07.

## Outlook

Increased ammonium nitrate production will make a positive contribution to earnings. The strength of the resources sector should provide a favourable environment for other chemical products.

The poor start to the 2007 agricultural season and ongoing high prices for imported fertiliser will present a challenging environment for the fertilisers business.

## Growth strategies

**Maintain and grow the ammonium nitrate business.**

**Identify market and product growth opportunities.**

**Optimise cost base and capital usage.**

**Continue to develop liquid fertiliser market.**

Wesfarmers' energy interests comprise four gas businesses, a power generation business and support services



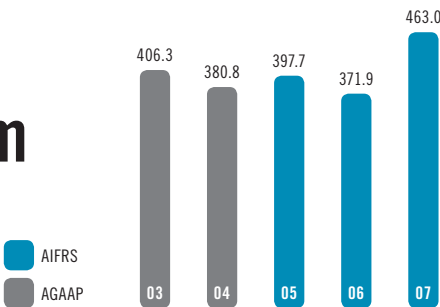
Coregas Tanker Driver, Kevin Hubbard, at the Yennora facility, New South Wales.

# Energy

## Revenue (\$m)

2007

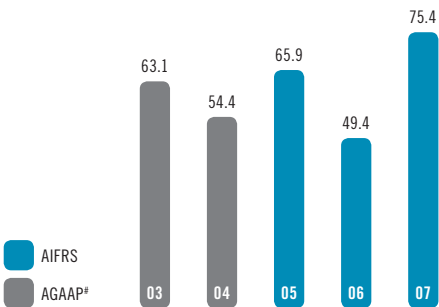
**\$463.0m**



## EBIT (\$m)

2007

**\$75.4m**



\*before goodwill amortisation

## THE BUSINESS

In 2006/07 Wesfarmers Energy comprised four gas businesses, a power generation business and support services.

Wesfarmers Energy's gas and power activities comprise: Coregas and a 40 per cent interest in Air Liquide WA (industrial and medical gases), Wesfarmers LPG (LPG production and export), Kleenheat Gas (LPG and LNG distribution and marketing) and enGen (power generation for remote towns and resource projects).

## STRATEGY

Wesfarmers Energy's strategy is to achieve long term sustainable growth by: improving existing businesses; expanding the division's geographical presence in key competency sectors; and the development of investments and capabilities in new segments.

## RESULTS

Revenue for the division increased to \$463.0 million, 24.5 per cent above last year's. Earnings before interest and tax of \$75.4 million were 52.6 per cent higher than the \$49.4 million earned in 2005/06.

The division's increased earnings were due to a part-year contribution from Coregas and improved performances from the other businesses.

### Industrial and Medical Gases

**Coregas:** In February 2007 the division acquired Coregas, a major national industrial and medical gas company with operations on the Australian east coast. Earnings for the five months since acquisition were broadly in line with expectations but with some impact experienced from subdued economic activity in Coregas' major market of New South Wales.

**Air Liquide WA:** Earnings were largely in line with last year's, following a pleasing performance from its air separation unit operations.

### LPG & LNG

**LPG:** Wesfarmers LPG increased revenue by 20.5 per cent due mainly to higher export volumes and higher Saudi contract prices. Earnings were 28.9 per cent higher than last year's.

**Kleenheat Gas:** Total sales volumes increased slightly compared to last year's through growth in the key areas of Kwik-Gas cylinder exchange, autogas, distributor and LNG sales, which were partially offset by lower traditional cylinder and bulk sales volumes. Earnings also increased over last year's due to improved margins and better cost control.

### Power Generation

**enGen:** Increased sales and earnings were achieved, due mainly to full year contributions from new power stations supplying a number of Western Australian regional towns and mine sites.

## YEAR IN BRIEF

### Industrial and Medical Gases

**Coregas:** Since its acquisition, activities have focused on successful integration into the division while also maintaining a strong customer focus. Good progress was made on its liquid nitrogen and acetylene expansions which are expected to be operational in the second half of 2007/08.

**Air Liquide WA:** A long-term supply contract extension was secured with a key air separation unit off-take customer. In addition, there has been an increased focus on developing long-term growth opportunities within the oil and gas sector.

### LPG & LNG

**LPG:** Production was up 17.9 per cent to 185,900 tonnes due to slightly higher LPG content combined with higher volumes in the Dampier to Bunbury natural gas pipeline.

**LNG:** Construction of a 175 tonne-per-day LNG plant on the Wesfarmers LPG site at Kwinana is on schedule for commissioning in March 2008. It is part of a \$138 million vertically integrated project to supply an alternative fuel to the heavy duty vehicle and remote power generation markets.

## TIM BULT

Managing Director  
Energy division

## Key financial indicators

	03	04	05	06	07
Revenue (\$m)	406.3	380.8	397.7	371.9	463.0
Earnings before interest and tax (\$m) <sup>#</sup>	63.1	54.4	65.9	49.4	75.4
Capital employed (\$m)	154.8	167.6	143.7	184.2	421.9
Return on capital employed (%)	40.8	32.5	45.8	26.8	17.9
Capital expenditure (\$m)	21.3	47.6	30.7	49.5	78.1

 AIFRS  AGAAP

<sup>#</sup>2003 to 2004 before goodwill amortisation

**Kleenheat Gas:** Ongoing implementation of logistics technology to bulk and cylinder delivery trucks continued to improve delivery and processing efficiency. In addition, solid growth in Kwik-Gas cylinder exchange sales was experienced.

### Power Generation

**enGen:** The first of five power stations being developed under the Aboriginal and Remote Communities Power Supply Project came into operation during the year. Work commenced on the remaining four stations, which are due to be completed by the end of 2007. Preparations also began for enGen's first LNG fuelled power stations, due to commence operations in 2008, at the Sunrise Dam and Darlot gold mines.

### BUSINESS SUSTAINABILITY

Wesfarmers Energy and its businesses adopt the goal of 'safety is our number one priority' while also focusing on continuous improvement of safety standards.

Air Liquide WA reported no lost time injuries for the year while enGen and Wesfarmers LPG continued their solid safety performances achieving four years without a lost time injury.

Collectively, Kleenheat Gas and Coregas had four lost time injuries during the year. Measures are currently being explored to continue improving the division's safety standards.

Kleenheat Gas has been a leading promoter and developer of alternative transport fuels over many years with autogas, and more recently LNG, as a diesel fuel alternative. Wesfarmers Energy will continue to evaluate and develop products that offer environmental benefits to its customers across all of its businesses.

The division is also a proud and strong supporter of the communities in which it operates, contributing in excess of \$280,000 to community initiatives throughout the year including a three-year commitment to the Clontarf Foundation's regional sports tour for young aboriginal men and the 'Community of the Year' awards in Western Australia and New South Wales.



### Business websites

- [www.wesfarmersenergy.com.au](http://www.wesfarmersenergy.com.au)
- [www.kleenheat.com.au](http://www.kleenheat.com.au)
- [www.wesfarmerslpg.com.au](http://www.wesfarmerslpg.com.au)
- [www.coregas.com](http://www.coregas.com)
- [www.airliquidewa.com.au](http://www.airliquidewa.com.au)
- [www.engen.com.au](http://www.engen.com.au)

### Locations

#### Industrial and Medical Gas

- Air Separation Units (Air Liquide WA)
- Air Separation Units (Coregas)
- Hydrogen plant (Coregas)
- Industrial gas depots/branches (Air Liquide WA)
- Industrial gas depots/branches (Coregas)

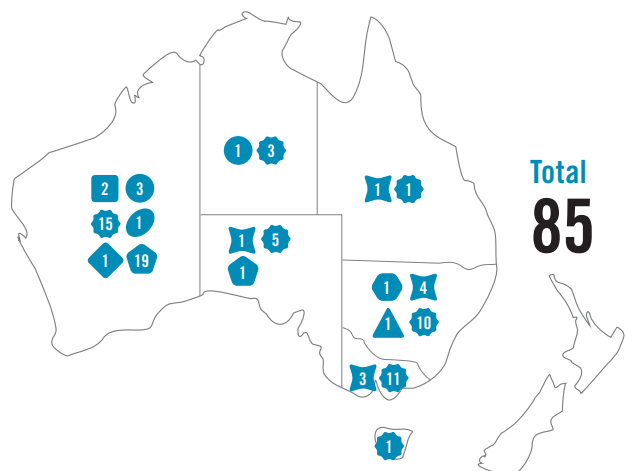
#### LPG & LNG

- LPG depots/branches
- LPG extraction facility
- LNG production facility (under construction)

#### Power Generation

- Power stations owned and/or operated

## Energy





**Mechanical Engineer, Ruckshan Rolin, inspects construction work at the 175 tonne-per-day Liquefied Natural Gas plant at Kwinana in Western Australia, which is due for commissioning by the end of March 2008.**



**LPG ship loading at Wesfarmers LPG's operations, Kwinana, Western Australia.**

## Outlook

Higher contributions are forecast for the industrial and medical gases sector with a full-year contribution from Coregas.

LPG earnings will continue to remain heavily dependent on Saudi contract prices as well as export and production volumes. The LNG plant is expected to contribute to earnings in the 2008/09 year.

The outlook for growth in power generation is positive as enGen implements new projects in Western Australia.

## Growth strategies

**Sustainable growth of industrial gas sales through expansion of supply capacity and securing of new business.**

**Develop and promote LNG as a sustainable alternative fuel for the transportation and remote power generation markets.**

**Increase customer focus and improve cost efficiencies to underpin LPG sales.**

**Explore investment opportunities in existing as well as new industry segments.**

**Maximise LPG production efficiency.**

# Other activities

## BUNNINGS WAREHOUSE PROPERTY TRUST

Wesfarmers' investment in the Bunnings Warehouse Property Trust resulted in a pre-tax contribution of \$46.9 million, a large proportion of which was due to property revaluations.

The Trust was established in 1998 with a focus on warehouse retailing properties and, in particular, Bunnings Warehouses leased to Bunnings Group Limited. Bunnings Property Management Limited, the responsible entity for the Trust, is a wholly owned subsidiary of Wesfarmers Limited.

Units in the Trust are listed on the Australian Securities Exchange and Wesfarmers holds, through a wholly-owned subsidiary, 22.64 per cent of the total units issued by the Trust.

The Trust's current portfolio consists of a total of 59 properties: 50 established Bunnings Warehouses, two Bunnings distribution centres; two development sites for Bunnings Warehouses; three office/warehouse industrial properties; and two retail/bulky goods showrooms.

## WESPINE

The 50 per cent-owned Wespine Industries Pty Ltd, which operates a plantation softwood sawmill in Dardanup in Western Australia, contributed earnings of \$5.7 million after tax, a reduction of 15.9 per cent on last year's due to increased competition and poorer log quality.

The capital project to expand the sawmill production capacity by a further 10 per cent is scheduled for completion in September 2007.

Last year's improved safety performance was maintained.

## GRESHAM PARTNERS

Wesfarmers has a 50 per cent interest in Gresham Partners Group Limited, the holding company for the Australian investment banking activities of Gresham Partners. Gresham, which has offices in Sydney, Melbourne and

Perth, is focused on the provision of corporate advisory services and the management of property and private equity funds.

Wesfarmers' interest in Gresham generated pre-tax earnings of \$3.9 million with a further \$12.8 million contributed through revaluations in Gresham's private equity funds, in which Wesfarmers holds interests.

Gresham's corporate advisory business focuses upon mergers and acquisitions, industry consolidations and the provision of strategic financial advice to a wide array of Australian and international businesses.

The advisory business has benefited from its active participation in a highly active mergers and acquisitions market over the past twelve months and was successful in completing a number of high-profile and large-scale transactions for its clients.

In funds management, Gresham manages a number of property and private equity funds with mandates to invest in Australia and New Zealand.

In property, it has established three funds with total committed capital of more than \$270 million. These funds provide financing for a range of real estate developments in Australia.

In private equity, Gresham has established two funds, with a combined total of more than \$500 million of committed capital. These funds are focussed on leveraged buy-outs of medium sized commercial businesses with clearly defined development prospects.

In addition to its shareholding in the Gresham Partners Group, Wesfarmers committed \$100 million to the first private equity fund, which was established in 1999; and committed \$150 million to the second fund in 2005.

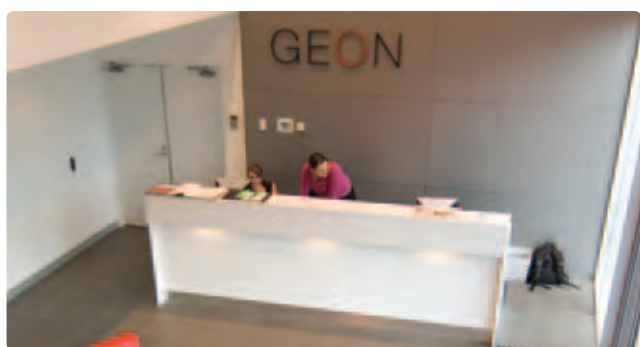
Wesfarmers is engaged in the Investment Committee of these private equity funds, and members of its Business Development team are, from time to time, seconded to Gresham Private Equity.

The private equity funds are closed-end funds which aim to exit all investments, returning net proceeds to investors, within 10 years of inception. To date, the funds have made 13 investments, of which 7 have been realised.

In 2006/07 the first fund divested its interests in Raywood, a wireless dispatch and GPS vehicle location systems provider; and subsequent to year end, Norcross, a UK-based construction and building material supplier.

The second fund continued to deploy its capital throughout the year making investments in women's fashion and accessory retailer, Witchery Fashions, and leading printing industry participant Promentum Limited, which has been merged with the earlier printing sector investment in the GEON Group.

Further acquisitions were made in August 2007 in Barmingo, one of Australia's leading underground mining contractors; and Mimco, a boutique designer and retailer of women's fashion accessories, which is complementary to the Witchery business.



Gresham Private Equity's portfolio includes the GEON Group, a specialist printing and mail management business headquartered in Sydney, New South Wales.

## BUSINESS WEBSITES

[www.bunningspropertytrust.com.au](http://www.bunningspropertytrust.com.au)

[www.wespine.com.au](http://www.wespine.com.au)

[www.gresham.com.au](http://www.gresham.com.au)



Bunnings Team Member, Andrea Ronald, with a range of water saving products at the Box Hill warehouse, Victoria.

# Sustainability



# Sustainability

Wesfarmers' commitment to the pursuit of sustainable outcomes is a major part of its strategic approach

The company has four strategies that guide its progress towards achieving the corporative objective of providing a satisfactory return to shareholders.

One of these is to "ensure sustainability through responsible long-term management".

The company takes the view that it will only be sustainable as a corporation if, in addition to continued financial success, it adequately addresses a range of other issues which are both significant in their own right and which feed back into financial outcomes. These include:

- the decent and principled treatment of a range of stakeholders, such as employees (including encouragement of workplace diversity), customers, suppliers and the broader community;
- maintenance of high standards of ethical conduct;
- provision of a safe and healthy working environment;
- respect for the physical environment in which the company's businesses operate;
- ensuring that internal knowledge of processes, expertise, products, customers and competitors is captured and shared within the group; and
- making a direct contribution to the community above and beyond the economic benefits flowing from well-run business activities.

## STAKEHOLDER RELATIONS

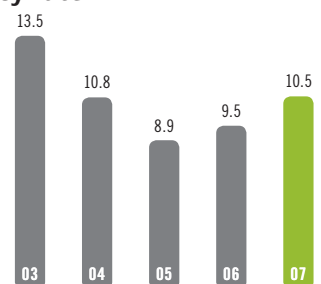
The company's primary responsibility is, and always will be, to its shareholders, the people who, through a willingness to invest, place their confidence in the Board and employees to successfully manage the business operations. But in an era of increased focus on both government and corporate accountability, greater attention is being paid to the relationship between public companies and a broader group of stakeholders.

Wesfarmers does not believe there is a case for extra regulation aimed at ensuring listed entities formally take into account the interests of those other than shareholders who have an interest in the activities of the corporation. This would merely add to the already substantial compliance responsibilities faced by listed entities without any guarantee of making a material difference. One of the reasons for Wesfarmers' rejection of a legislated response is that, from its earliest days as a farmers'

## Lost time injury frequency rate

2007

10.5



cooperative, the company has recognised the need for and desirability of fostering and maintaining good relations with a broad constituency of interests.

Foremost amongst this group are the company's employees. As the Managing Director noted in his overview remarks, the competition for talent has emerged as a major determinant of ongoing business success. The Wesfarmers group employs more than 30,000 people on a permanent and part time basis. To attract the best available skills, the company aims to be an employer of choice. Some of this relates to the terms and conditions offered but there are other important aspects contributing to the perception of a company in the employment marketplace.

These include the provision of safe working conditions, an environment where discrimination on any grounds is not tolerated and where openness is encouraged without fear of retribution. All the company's operating businesses have well-developed safety systems and the group's Code of Ethics and Conduct provides a framework for behaviour internally and externally, including specific protection for whistleblowers.

The main safety measurement used across the group is the lost time injury frequency rate (LTIFR). The LTIFR is a mechanism which relates injuries that result in lost time

Participants on the Wesfarmers Ultimate Challenge, a community partnership with the Leeuwin Ocean Adventure Foundation.



Process Operator, Mark McCafferty, carrying out a gas detection test at the Wesfarmers LPG facility at Kwinana, Western Australia.

to total hours worked, although businesses are encouraged to use other indicators of safety performance, such as the number of all workplace injuries.

Unfortunately in 2006/07 the company's overall LTIFR increased from 9.5 to 10.5. Wesfarmers has a group-wide target of a 50 per cent annual reduction on the way to a zero outcome. Part of senior management remuneration is linked to safety performance.

Career development opportunities are another important aspect in enhancing the attractiveness of an employer. With the very great sector and geographic spread of the Wesfarmers' businesses, most training and development responsibility logically resides with the operational units. There are some group-wide programmes which supplement the business level activity.

A co-ordinated succession planning process monitors the progress of more than 100 of the group's most senior people with a view to identifying candidates for internal promotion as well as being part of a broader strategy to retain key people. A number of management development programmes are open to participants from across the group. The biggest group gathering of senior managers, the Best Practice Conference, is held about every two years. The last such event was in September 2006 with around 250 delegates coming together in Perth to hear and

## Sustainability principles

**The decent and principled treatment of employees, customers, suppliers and the broader community.**

**Maintaining high standards of ethical conduct.**

**Providing a safe and healthy working environment.**

interact with internal and external speakers on the theme "Sustainable Success – Integrity, Implementation & Innovation".

With such a range of business operations there is a mix of arrangements covering terms of engagement and conditions of work. Wesfarmers recognises the right of individuals to negotiate in their own right or as part of a collective approach which may or may not involve third party participation. The company's aim always is to maximise flexibility at the workplace level with an emphasis on cooperation and mutually beneficial outcomes. Extensive use is made of enterprise bargaining agreements which are negotiated with unions. Individual contracts under common law are also used and a relatively small number of Australian Workplace Agreements are in place.

## THE ENVIRONMENT

Environmental responsibility is a major factor in the operations of each Wesfarmers-owned business. They are required to develop, implement and report on compliance with environmental policies and procedures relevant to their circumstances. Legal compliance is a minimum with businesses encouraged to set higher standards.

Compliance with environmental regulations across the many jurisdictions in which the company's businesses operate is monitored by the company's Audit Committee. This occurs as part of the process of the Committee's consideration of the annual stand-alone report covering

all aspects of Wesfarmers' sustainability-related outcomes, which has been produced since 1999. Previously entitled the Social Responsibility Report, in 2007 it has been renamed the Sustainability Report to underline the holistic approach taken by the company. Any material breaches of either environmental or safety standards are disclosed in detail in this report which is published each November. Copies are available from the Public Affairs department (+ 61 8) 9327 4251 or can be downloaded from the website at [www.wesfarmers.com.au](http://www.wesfarmers.com.au).

With increased public and political focus during the year on climate change, Wesfarmers has continued to develop its position on this complex and important issue. An external greenhouse risks and opportunities assessment was commissioned and this will provide the basis for future action. It follows an earlier study which was considered by the Board in 2003. The Board received an update on the company's climate change responses at its planning session in May 2007.

Wesfarmers has for several years disclosed its greenhouse emissions through the sustainability reporting process and is well placed to meet government-imposed requirements to report emissions, expected to take effect in mid 2008.

In addition, the company in 2007 was again a respondent to the Carbon Disclosure Project (CDP), providing information - which later is publicly released - on emissions and other aspects of climate change policies and responses. The CDP surveys major Australian and New Zealand corporations on behalf of a significant group of institutional investors with particular interest in this issue.

Wesfarmers also registered all of its businesses under the Commonwealth government's Energy Efficiency Opportunities programme. This exceeded the legislative requirement on coverage of operational activity as this new compliance regime is seen as an opportunity for the company to make a contribution to a better environment and to reduce costs.

Bunnings increased its sustainability focus during the year with the announcement in May of new initiatives, costing \$8 million, related to water use and climate change. All existing warehouse stores in sub-tropical mainland Australia will be fitted with rain water harvesting systems with that water being used to irrigate



Rainwater collection tanks outside the Bunnings Box Hill warehouse, Victoria.

## Sustainability principles

**Respect for the physical environment in which the company's businesses operate.**

**Ensuring that internal knowledge of processes, expertise, products, customers and competitors is captured and shared within the Group.**

**Making a direct contribution to the community above and beyond the economic benefits flowing from well-run business activities.**

outdoor nurseries and to flush toilets. It also adopted a goal of achieving carbon neutrality by 2015 or earlier and will make grants to help develop carbon-offset projects.

## THE COMMUNITY

Companies make a contribution to the community in many different ways. Primarily, and by far the biggest positive impact a corporation can have on society, is to run its business or businesses successfully, thereby generating employment and adding to general prosperity by the flow-on benefits of its operations to employees, shareholders and suppliers and through the provision of high quality goods and services to customers.

As well as this, companies may choose to provide support in direct and indirect ways to give something back to the communities in which they operate. Wesfarmers has a long history of acceptance of this approach. Each year the Board has the capacity to approve donations to community-benefiting organisations and causes of up to 0.25 per cent of pre tax profit. Areas to which company assistance is currently directed include health care, conservation and the physical and mental wellbeing of young people.

During the year, Wesfarmers entered into a new partnership with the Leeuwin Ocean Adventure Foundation which uses Leeuwin II, Australia's biggest ocean-going tall ship, for leadership and team building programmes.

In addition to the support from Wesfarmers Limited, very significant amounts are provided by the company's operating businesses through donations, sponsorship and by raising money through access to facilities and employee involvement. More than \$6 million flowed to the community from Wesfarmers and the businesses in this way in 2006/07. Extra funds totalling more than \$65 million were raised thanks to the involvement of Bunnings in community-focused initiatives.

The company's nationally-recognised commitment to supporting the arts continued with Wesfarmers Arts contributing about \$550,000 to a range of leading performing and visual arts companies and organisations. The Commissions Series with the Perth International Arts Festival reached a conclusion with the premiere of the opera "The Love of the Nightingale", which has subsequently won several awards.



Scene from the Helpmann Award winning opera "The Love of the Nightingale" which premiered as part of the Wesfarmers Arts Commission Series at the 2007 Perth International Arts Festival.

Members of the Curragh Mine Rescue Team who finished first overall in the Australasian Road Rescue Skills Challenge in Perth, Western Australia in June 2007. From left: Neal Quinlan, Greg Mitchell, Troy Martin, Derrick Gould, Roy McGregor and Keiran Ferguson.



**A Trevor Eastwood AM, age 65**

*Non-executive Chairman*

Joined the Board in 1994 and was appointed Chairman in 2002. Trevor holds a Bachelor of Engineering degree from the University of Western Australia and completed the Advanced Management Program at the Harvard Business School in 1982. He commenced his career with the group as an employee of Westralian Farmers Co-operative Limited in 1963 and held a number of management positions in the group up to his retirement in 1992, including his final eight years as Managing Director of Wesfarmers Limited. The other listed company of which he has been a director in the last three years is Qantas Airways Limited (appointed October 1995 – resigned March 2005). Trevor is also a director of The WCM Group Limited and was formerly the Chairman of West Australian Newspapers Holdings Ltd.

**B Richard Goyder, age 47**

*Managing Director*

Joined the Board in 2002. Richard has a Bachelor of Commerce degree from the University of Western Australia and completed the Advanced Management Program at the Harvard Business School in 1998. He joined Wesfarmers in 1993 after working in various commercial roles at Tubemakers of Australia Limited. He has held a number of commercial positions in Wesfarmers' Business Development Department including General Manager. In 1999 Richard was Managing Director of Wesfarmers Dalgety

Limited, which subsequently became Wesfarmers Landmark Limited, a position he retained until his appointment as Finance Director of Wesfarmers Limited in 2002. He was appointed Deputy Managing Director and Chief Financial Officer of Wesfarmers Limited in 2004 and assumed the role of Managing Director and Chief Executive Officer in July 2005. Richard is a director of Gresham Partners Holdings Ltd, Wespine Industries Pty Ltd, Australian Business and Community Network, the Fremantle Football Club Limited and a number of Wesfarmers group subsidiaries. He is also a member of the Federal Government's Business Roundtable on Sustainable Development, the Business Council of Australia and the University of Western Australia Business School Advisory Board.

**C Gene Tilbrook, age 56**

*Finance Director*

Joined the Board in 2002. Gene holds Bachelor of Science and Master of Business Administration degrees and a Diploma in Computing Science from the University of Western Australia. He completed the Advanced Management Program at the Harvard Business School in 1998. Gene joined Wesfarmers in 1985 and has held a number of commercial positions in its Business Development Department and at Wesfarmers Energy. He previously worked in corporate finance and in systems engineering.

Gene was Executive Director, Business Development before being appointed Finance Director in July 2005. He is a

director of a number of Wesfarmers' subsidiaries, as well as Gresham Partners Holdings Ltd, Wespine Industries Pty Ltd and Air Liquide WA Pty Ltd. He was previously a director of Bunnings Property Management Limited (appointed July 2001 – resigned September 2005), the responsible entity for the listed Bunnings Warehouse Property Trust.

He is a councillor of the Australian Institute of Company Directors (WA Division) and also a member of the boards of The UWA Perth International Arts Festival and St George's College Foundation Inc.

**D Colin Carter OAM, age 64**

*Non-executive director*

Joined the Board in 2002. Colin holds a Bachelor of Commerce degree from Melbourne University and a Master of Business Administration from Harvard Business School. He has had extensive experience advising on corporate strategy and corporate governance and his consultancy career has included major projects in Australia and overseas. The other listed companies of which he is or has been a director in the last three years are Origin Energy Limited (appointed February 2000 – resigned April 2007), SEEK Limited (appointed March 2005) and Foster's Group Limited (appointed March 2007). He is also Chairman of Indigenous Enterprise Partnerships, a member of the Board of The Cape York Institute, a Commissioner of the Australian Football League and an adviser to, and former Vice President of, The Boston Consulting Group.

**E Patricia Cross, age 48**

*Non-executive director*

Joined the Board in 2003. Patricia holds a Bachelor of Science (Econ) with Honours from Georgetown University. The other listed companies of which she is or has been a director in the last three years are Qantas Airways Limited (appointed January 2004) and National Australia Bank Limited (appointed December 2005). Patricia has 25 years experience in international banking and finance, having served two years with the U.S. government, over 15 years in management and executive roles with Chase Manhattan Bank, Banque Nationale de Paris, National Australia Bank and 11 years as a non-executive director with organisations including the Transport Accident Commission (Deputy Chairman) and Suncorp-Metway Limited. She was previously a director of AMP Limited and Chairman of Qantas Superannuation Limited. Patricia also serves on a variety of not-for-profit and government advisory boards including as a director of the Murdoch Children's Research Institute.

**F Bob Every, age 62**

*Non-executive director*

Joined the Board in February 2006. Bob holds a Bachelor of Science degree and a Doctorate of Philosophy (Metallurgy) from the University of New South Wales and is a Fellow of the Australian Academy of Technological Sciences and Engineering. The other listed

# Board of directors



companies of which he is or has been a director in the last three years are OneSteel Limited (appointed July 2000 - resigned May 2005), Boral Limited (appointed September 2007), Iluka Resources Limited (appointed March 2004), and Sims Group Limited (appointed October 2005). He is also a director of E2 Consultancy Pty Ltd, O'Connell Street Associates Pty Limited, OCA Services Pty Ltd, a member of the Advisory Board of Gresham Private Equity Limited and an advisor to Proudfoot Consulting. He was also the Chairman of the New Zealand based listed company Steel & Tube Holdings Limited (appointed November 1988 - resigned May 2005). Other positions previously held by Bob include Managing Director of Tubemakers of Australia Limited, President of BHP Steel and Managing Director and Chief Executive Officer of OneSteel Limited, a position from which he retired in May 2005. He was also a director of CARE Australia.

**G James Graham, age 59**

*Non-executive director*

Joined the Board in 1998. James holds a Bachelor of Engineering in Chemical Engineering with Honours from the University of Sydney, a Master of Business Administration from the University of New South Wales and is a Fellow of the Australian Academy of Technological Sciences and Engineering. He has had an active involvement in the growth of Wesfarmers since 1976 in his roles as Managing Director of

Gresham Partners Limited and previously as a director of Hill Samuel Australia Limited and Managing Director of Rothschild Australia Limited. In addition to his investment banking activities, James is Chairman of Rabobank Australia Limited, Rabo Australia Limited, Rabobank New Zealand Limited, the Advisory Council of The Institute for Neuromuscular Research and Gresham Technology Management Limited, which was the responsible entity of the Technology Investment Fund until August 2005. He is also a director of Wesfarmers Federation Insurance Limited, Lumley General Insurance Limited, Australian International Insurance Limited and Riviera Group Pty Ltd. James is also a member of the Fundraising Committee for the Australian Olympic Committee (NSW) for Beijing 2008 and a Trustee of the Gowrie Scholarship Trust Fund. In the period from 1989 to 1995 he was Chairman of the Darling Harbour Authority in New South Wales.

**H Dick Lester, age 68**

*Non-executive director*

Joined the Board in 1995. Dick is a graduate with Honours from Dookie Agricultural College, Victoria. He was Principal and Chief Executive Officer of Growth Equities Mutual Limited until he sold his interest in that organisation in 1994. He was an inaugural member of the Companies and Securities Advisory Committee established by the Federal Attorney General to advise the Australian Government on securities industries

laws. Dick is actively involved in real estate investment and development in the Perth metropolitan area and regional Western Australia. He is a director of a number of unlisted companies and is Chairman of the Western Australian Institute for Medical Research Inc.

**I Charles Macek, age 60**

*Non-executive director*

Joined the Board in 2001. Charles holds a Bachelor of Economics degree and a Master of Administration from Monash University. The other listed companies of which he is or was a director in the last three years are Telstra Corporation Limited (appointed November 2001), Living Cell Technologies Ltd (appointed March 2006 - resigned August 2007) and IOOF Holdings Ltd of which he was Chairman (appointed August 2002 - resigned August 2003). Charles is Chairman of the Financial Reporting Council, Sustainable Investment Research Institute Pty Ltd and the Racing Information Services Australia Pty Ltd and was formerly the Chairman of the Centre for Eye Research Australia Limited. He is also a member of the New Zealand Accounting Standards Review Board.

**J David White, age 59**

*Non-executive director*

Joined the Board in 1990. David holds a Bachelor of Business degree from Curtin University and is a fellow of CPA Australia. He is Chairman of the Wheatbelt Area Consultative

Committee, a member and Treasurer of Parkerville Children and Youth Care (Inc) and a member of the Australian Institute of Company Directors. He was formerly the Treasurer of The Royal Agricultural Society of Western Australia (Inc).

**K Tony Howarth AO, age 55**

*Non-executive director*

Joined the Board in July 2007. Tony is a Senior Fellow of the Financial Services Institute of Australia and has over 30 years experience in the banking and finance industry. He has held several senior management positions during his career, including Managing Director of Challenge Bank Limited and CEO of Hartleys Limited. The other listed companies of which he is or has been a director in the last three years are, Chairman of Home Building Society Ltd (appointed June 2003), Mermaid Marine Australia Limited (appointed July 2003), Alinta Limited (appointed 2000 - resigned July 2006) and a director of AWB Limited (appointed March 2005). He is also Chairman of St John of God Health Care Inc. Tony is also involved in a number of community and business organisations including the Senate of the University of Western Australia, Chairman of the Committee for Perth Limited, a member of the Rio Tinto WA Future Fund and a director of Western Australian Community Foundation Limited, the Australian Chamber of Commerce and Industry and the Chamber of Commerce and Industry of Western Australia (Inc).



# Corporate governance statement

The Board of Wesfarmers Limited is a strong advocate of good corporate governance. The Board is committed to providing a satisfactory return to its shareholders and fulfilling its corporate governance obligations and responsibilities in the best interests of the company and its stakeholders



name of director	year appointed	non-executive	independent	retiring at 2007 AGM	seeking re-election at 2007 AGM
<b>Board Structure</b>					
T R Eastwood, Chairman	1994	Yes	Yes	No	No
C B Carter	2002	Yes	Yes	Yes#	Yes
P A Cross	2003	Yes	Yes	No	No
R L Every	2006	Yes	Yes	No	No
R J B Goyder, Managing Director	2002	No	No	No	No
J P Graham	1998	Yes	No	Yes#	Yes
A Howarth	2007	Yes	Yes	Yes##	Yes
R D Lester	1995	Yes	Yes	No	No
C Macek	2001	Yes	Yes	No	No
G T Tilbrook, Finance Director	2002	No	No	No	No
D C White	1990	Yes	Yes	Yes#	Yes

# Retiring by rotation in accordance with the Constitution and the ASX Listing Rules.

## Retiring in accordance with the Constitution at the first annual general meeting following appointment by the directors.

Details of the background, experience and professional skills of each director are set out on pages 42 and 43 of this Annual Report.

Wesfarmers complies with the ASX Corporate Governance Council's Principles of Good Corporate Governance and Best Practice Recommendations ("ASX Principles").

Wesfarmers' corporate governance practices for the year ended 30 June 2007, and at the date of this report, are outlined in this corporate governance statement. The following table lists each of the ASX Principles and Wesfarmers' assessment of compliance with the principles:

<u>Status</u>	<u>Status</u>
<b>Principle 1: Lay solid foundations for management and oversight</b>	<b>Principle 6: Respect the rights of shareholders</b>
1.1 Formalise and disclose the functions reserved to the board and those delegated to management ✓	6.1 Design and disclose a communications strategy to promote effective communication with shareholders and encourage effective participation at general meetings ✓
<b>Principle 2: Structure the board to add value</b>	6.2 Request the external auditor to attend the annual general meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report ✓
2.1 A majority of the board should be independent directors ✓	<b>Principle 7: Recognise and manage risk</b>
2.2 The chairman should be an independent director ✓	7.1 The board or appropriate board committee should establish policies on risk oversight and management ✓
2.3 The roles of chairman and chief executive officer should not be exercised by the same individual ✓	7.2 The chief executive officer (or equivalent) and the chief financial officer (or equivalent) should state to the board in writing that:
2.4 The board should establish a nomination committee ✓	7.2.1 the statement given in accordance with best practice recommendation 4.1 (the integrity of financial statements) is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the board ✓
2.5 Provide the information indicated in <i>Guide to reporting on Principle 2</i> ✓	7.2.2 the company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects ✓
<b>Principle 3: Promote ethical and responsible decision-making</b>	7.3 Provide the information indicated in <i>Guide to reporting on Principle 7</i> ✓
3.1 Establish a code of conduct to guide the directors, the chief executive officer (or equivalent), the chief financial officer (or equivalent) and any other key executives as to:	<b>Principle 8: Encourage enhanced performance</b>
3.1.1 the practices necessary to maintain confidence in the company's integrity ✓	8.1 Disclose the process for performance evaluation of the board, its committees and individual directors, and key executives ✓
3.1.2 the responsibility and accountability of individuals for reporting and investigating reports of unethical practices ✓	<b>Principle 9: Remunerate fairly and responsibly</b>
3.2 Disclose the policy concerning trading in company securities by directors, officers and employees ✓	9.1 Provide disclosure in relation to the company's remuneration policies to enable investors to understand:
3.3 Provide the information indicated in <i>Guide to reporting on Principle 3</i> ✓	• the costs and benefits of those policies ✓
<b>Principle 4: Safeguard integrity in financial reporting</b>	• the link between remuneration paid to directors and key executives and corporate performance ✓
4.1 Require the chief executive officer (or equivalent) and the chief financial officer (or equivalent) to state in writing to the board that the company's financial reports present a true and fair view, in all material respects, of the company's financial condition and operational results and are in accordance with relevant accounting standards ✓	9.2 The board should establish a remuneration committee ✓
4.2 The board should establish an audit committee ✓	9.3 Clearly distinguish the structure of non-executive directors' remuneration from that of executives ✓
4.3 Structure the audit committee so that it consists of:	9.4 Ensure that payment of equity-based executive remuneration is made in accordance with thresholds set in plans approved by shareholders ✓
• only non-executive directors ✓	9.5 Provide the information indicated in <i>Guide to reporting on Principle 9</i> ✓
• a majority of independent directors ✓	<b>Principle 10: Recognise the legitimate interests of stakeholders</b>
• an independent chairman, who is not chairman of the board ✓	10.1 Establish and disclose a code of conduct to guide compliance with legal and other obligations to legitimate stakeholders ✓
• at least three members ✓	
4.4 The audit committee should have a formal charter ✓	
4.5 Provide the information indicated in <i>Guide to reporting on Principle 4</i> ✓	
<b>Principle 5: Make timely and balanced disclosure</b>	
5.1 Establish written policies and procedures designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior management level for that compliance ✓	
5.2 Provide the information indicated in <i>Guide to reporting on Principle 5</i> ✓	



## PRINCIPLE 1: LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

The role of the Board is to oversee and guide the management of Wesfarmers and its businesses with the aim of protecting and enhancing the interests of its shareholders, taking into account the interests of other stakeholders, including employees, customers, suppliers and the wider community.

The Board has a Charter which clearly establishes the relationship between the Board and management and describes their functions and responsibilities.

The responsibilities of the Board include:

- oversight of the Wesfarmers group, including its control and accountability systems;
- appointing (and removing) the Managing Director;
- ratifying the appointment (and the removal) of the Finance Director and the Company Secretary;
- reviewing and ratifying systems of risk management and internal compliance and control, codes of conduct and legal compliance;
- monitoring senior management's performance and implementation of strategy;
- approving and monitoring the progress of major capital expenditure, capital management, acquisitions and divestments;
- approving and monitoring financial and other reporting;
- reviewing and approving the remuneration of the Managing Director and senior management; and
- appointing, re-appointing or removing the company's external auditors (on recommendation from the Audit Committee).

The Managing Director is responsible to the Board for the day-to-day management of the Wesfarmers group.

The roles and responsibilities of the company's Board and management are consistent with those set out in ASX Principle 1. A summary of the Board Charter is available from the corporate governance section of the company's website.

## PRINCIPLE 2: STRUCTURE THE BOARD TO ADD VALUE

### Board structure

The Board is currently comprised of 11 directors, with:

- nine non-executive directors, including the Chairman; and
- two executive directors.

The directors in office at the date of this report, the year of each director's appointment and each director's status as an independent, non-executive or executive director are set out in the table on page 44.

The following Board changes have occurred since 1 July 2006:

- 3 July 2006 – Mr Trevor Flügge resigned as a director;
- 8 September 2006 – Mr David Robb resigned as an executive director;
- 1 November 2006 – Mr Lou Giglia retired as a director; and
- 5 July 2007 – Mr Anthony Howarth was appointed as an additional director.

### Director independence

Directors are expected to bring independent views and judgement to the Board's deliberations.

Under the Charter, the Board must include a majority of non-executive independent directors and have a non-executive independent Chairman (with different persons filling the roles of Chairman and Managing Director).

The Board has reviewed the position and associations of all directors in office at the date of this report and considers that a majority (eight of eleven) of the directors are independent. In considering whether a director is independent, the Board has had regard to the independence criteria in ASX Principle 2 and other facts, information and circumstances that the Board considers relevant. The Board assesses the independence of new directors upon appointment and reviews their independence, and the independence of the other directors, at other times as appropriate.

The test of whether a relationship is material is based on the nature of the relationship and the circumstances of the director. Materiality is considered from the perspective of the company, the director, and the person or entity with which the director has a relationship.

The three directors who are not considered to be independent are:

- Mr Richard Goyder, Managing Director;
- Mr Gene Tilbrook, Finance Director; and
- Mr James Graham, a non-executive director, who is Managing Director of Gresham Partners Limited.

Mr Graham is technically deemed not to be independent by virtue of his professional association with Gresham Partners Limited, which acts as an investment advisor to the company.

The Board has, however, determined that the relationship does not interfere with Mr Graham's exercise of independent judgement and believes that his appointment is in the best interests of the group because of the substantial knowledge and expertise he brings to the Board.

In addition, the Board has considered the independence of Messrs Trevor Eastwood (Chairman), Dick Lester and David White, in relation to their period of service as directors.

In each case, the Board considered that the length of time that the director had been on the Board did not have an adverse impact on the director's ability to bring an independent judgement to bear in decision-making. The Board considers that having some directors who have served on the Board for longer periods helps to ensure continuity of corporate knowledge and experience, provided that the capacity for active contribution and independent judgement is maintained.

The independence of the Chairman, Mr Eastwood, was also considered in light of the fact that he served as Managing Director from 1984 to 1992. In relation to his past executive service, the Board considers that the relevant criteria for independence in ASX Principle 2 is satisfied given the significant passage of time since his retirement from that position.

The Board considers that Messrs Eastwood, Lester and White are independent directors in accordance with the independence criteria in ASX Principle 2, given their continued and demonstrated performance and ability to make objective judgements on matters before the Board.

## Retirement and re-election

The company's Constitution requires one third of the directors, other than the Managing Director, to retire from office at each annual general meeting. Directors who have been appointed by the Board during the year (as a causal vacancy or as an addition to the Board) are required to retire from office at the next annual general meeting.

Directors cannot hold office for a period in excess of three years or beyond the third annual general meeting following their appointment without submitting themselves for re-election. Retiring directors are eligible for re-election by shareholders.

Board support for directors retiring by rotation and seeking re-election is not automatic. The Board Charter and the company's letter of appointment for a non-executive director require a non-executive director to take into account the views of the other non-executive directors of the company when making a decision to stand for re-election.

Under the Board Charter, the Chairman must retire from this position at the expiration of 10 years unless the Board decides otherwise. In addition, the appointment is formally reviewed at the end of each three year period.

## Nomination and appointment of new directors

Recommendations of candidates for appointment as new directors are made by the Board's Nomination Committee for consideration by the Board as a whole. If it is necessary to appoint a new director to fill a vacancy on the Board or to complement the existing Board, a wide potential base of possible candidates is considered. In some cases, external consultants are engaged to assist in the selection process. If a candidate is recommended by the Nomination Committee, the Board assesses the qualifications of the proposed new director against a range of criteria including background, experience, professional skills, personal qualities, the potential for the candidate's skills to augment the existing Board, and the candidate's availability to commit to the Board's activities. If these criteria are met and the Board appoints the candidate as a director, that director (as noted previously) must retire at the next annual general meeting and will be eligible for election by shareholders at that meeting.

## Induction of new directors

New directors are provided with a formal letter of appointment which sets out the key terms and conditions of appointment, including duties, rights and responsibilities, the time commitment envisaged, and the Board's expectations regarding involvement with committee work.

As part of a comprehensive induction programme, the new director meets with the Chairman, the Audit Committee Chairman, the Managing Director, Divisional Managing Directors, and other key executives. The programme also includes site visits to some of Wesfarmers' key operations.

## Knowledge, skills and experience

All directors are expected to maintain the skills required to discharge their obligations to the company.

Directors are provided with papers, presentations and briefings on group businesses and on matters which may affect the operations of the group.

Directors are also encouraged to undertake continuing education and training relevant to the discharge of their

obligations as directors of the company. Subject to prior approval by the Company Secretary, the reasonable cost of continuing education and training is met by the company.

To assist directors to maintain an appropriate level of knowledge, skill and experience in the operations of the company, directors undertake site visits each year to a number of Wesfarmers businesses.

## Board access to information and independent advice

All directors have unrestricted access to employees of the group and, subject to the law, access to all company records and information held by group employees and external advisers. The Board receives regular detailed financial and operational reports from senior management to enable it to carry out its duties.

Consistent with ASX Principle 2, each director may, with the prior written approval of the Chairman, obtain independent professional advice to assist the director in the proper exercise of powers and discharge of duties as a director or as a member of a Board committee. The company will reimburse the director for the reasonable expenses of obtaining that advice.

## Conflicts of interest

Directors are required to avoid conflicts of interest and immediately inform their fellow directors should a conflict of interest arise. Directors are also required to advise the company of any relevant interests that may result in a conflict.

The Board has adopted the use of formal standing notices in which directors disclose any material personal interests and the relationship of these interests to the affairs of the company. A director is required to provide an updated notice to disclose any new material personal interests or if there is any change in the nature or extent of a previously disclosed interest.

Where a matter in which a director has a material personal interest is being considered by the Board, that director must not be present when the matter is being considered or vote on the matter, unless all of the other directors have passed a resolution to enable that director to do so or the matter comes within a category of exception under the Corporations Act 2001.

## Committees of the Board

The Board has established an Audit Committee, a Nomination Committee and a Remuneration Committee as standing committees to assist the Board in the discharge of its responsibilities.

These committees review matters on behalf of the Board and (subject to the terms of the committee's Charter):

- refer matters to the Board for decision, with a recommendation from the committee (where the committee acts in an advisory capacity); or
- determine matters (where the committee acts with delegated authority), which it then reports to the Board.

### *Nomination Committee*

The specific responsibilities of the Nomination Committee are set out in the committee's Charter, which reflects the requirements of the ASX Principles.

The Nomination Committee's responsibilities include:

- reviewing Board and committee composition and

recommending new appointments to the Board and the committees;

- ensuring an effective induction programme for directors; and
- reviewing Board succession plans.

The Nomination Committee was established as a separate Board committee from 1 January 2007. In the period from 1 July to 31 December 2006, the nomination functions were carried out by the Nomination and Remuneration Committee.

The members of the Nomination Committee at the date of this report are:

- Mr Trevor Eastwood (Chairman)
- Mr Colin Carter
- Mrs Patricia Cross
- Dr Robert Every
- Mr James Graham
- Mr Anthony Howarth (from 5 July 2007)
- Mr Richard Lester
- Mr Charles Macek
- Mr David White

The members of the Nomination and Remuneration Committee were:

- Mr Trevor Eastwood
- Mr Colin Carter
- Mrs Patricia Cross
- Mr Trevor Flügge (until 3 July 2006)
- Mr Lou Giglia (until 1 November 2006)

The composition, operation and responsibilities of the Nomination Committee are consistent with ASX Principle 2.

The committee (as the Nomination Committee or as part of the Nomination and Remuneration Committee) met four times during the year ended 30 June 2007. Details of meeting attendance for committee members are set out in the Directors' Report on page 121 of this Annual Report.

A summary of the committee's role, rights, responsibilities and membership requirements is available from the corporate governance section of the company's website.

#### **Audit Committee**

Further information about the Audit Committee is provided in this statement under **Principle 4: Safeguard Integrity in Financial Reporting**.

#### **Remuneration Committee**

Further information about the Remuneration Committee is provided in this statement under **Principle 9: Remunerate Fairly and Responsibly**.

## **PRINCIPLE 3: PROMOTE ETHICAL AND RESPONSIBLE DECISION-MAKING**

### **Conduct and ethics**

The Board has adopted a Code of Conduct to guide the directors and promote high ethical and professional standards and responsible decision-making.

In addition, the company has adopted a Code of Ethics and Conduct for all employees (including directors). The Code of Ethics and Conduct is aimed at maintaining the highest ethical standards, corporate behaviour and accountability across the group. Employees and directors are expected to

respect the law; respect confidentiality; properly use group assets, information and facilities; value and maintain professionalism; avoid conflicts of interest; act in the best interests of shareholders; contribute to the company's reputation as a good corporate citizen; and act with honesty, integrity, decency and responsibility at all times.

Wesfarmers encourages the reporting of unlawful and unethical behaviour, actively promotes and monitors compliance with the Code of Ethics and Conduct, and protects those who report breaches in good faith. The Code of Ethics and Conduct provides protection to whistleblowers, as required by the Corporations Act 2001. Under the code, whistleblowers are protected from any disadvantage, prejudice or victimisation for reports made in good faith of any breaches of the code or the Corporations Act 2001.

The Board has appointed protected disclosure officers (the Finance Director, Chief Legal Counsel and Company Secretary) to receive reports and manage investigations in relation to potential breaches of the Corporations Act 2001. Guidelines were developed to assist directors and senior executives to manage reports of whistleblower complaints.

In July 2006, the Board approved amendments to the code to strengthen the prohibitions on bribery and corrupt practices and to implement a notification and reporting process relating to facilitation payments.

The Board's Code of Conduct and the Code of Ethics and Conduct are consistent with ASX Principles 3 and 10. Summaries of the codes are available from the corporate governance section of the company's website.

### **Minimum shareholding requirement for directors**

The company's Constitution requires a director to hold, directly or indirectly, a minimum of 1,000 ordinary shares in the company within two months after appointment and at all times during the director's period of office.

### **Share Trading Policy**

The company's Share Trading Policy reinforces the requirements of the Corporations Act 2001 in relation to insider trading. The policy states that all employees and directors of the company, and its related companies, are expressly prohibited from trading in the company's securities, or securities in other entities in which Wesfarmers has an interest, if they are in possession of "inside information".

A director who intends to buy or sell shares must:

- advise the Company Secretary in advance of their intention to trade;
- confirm that they do not hold unpublished inside information; and
- have been advised by the Company Secretary that there is no known reason to preclude the proposed trading.

Each director has entered into an agreement with the company under which the director must notify the company of any trade in the company's securities, or an associated entity's securities, within three business days.

The company's Share Trading Policy prohibits executive directors and divisional managing directors from entering into transactions or arrangements which transfer the risk of any fluctuation in the value of shares obtained under Wesfarmers' long term incentive plan whilst the shares are subject to a restriction.

The company's Share Trading Policy is consistent with ASX Principle 3. A summary of the Share Trading Policy is available from the corporate governance section of the company's website.

## **PRINCIPLE 4: SAFEGUARD INTEGRITY IN FINANCIAL REPORTING**

### **Financial reporting**

#### ***CEO and CFO declaration***

Consistent with ASX Principle 4, and in accordance with section 295A of the Corporations Act 2001, the company's financial report preparation and approval process for the financial year ended 30 June 2007 involved both the Managing Director (Chief Executive Officer) and Finance Director (Chief Financial Officer) providing a written statement to the Board that, in their opinion:

- the company's financial report presents a true and fair view of the company's financial condition and operating results and is in accordance with applicable accounting standards; and
- the company's financial records for the financial year have been properly maintained in accordance with section 286 of the Corporations Act 2001.

This statement was also signed by the General Manager, Group Accounting.

#### ***Audit Committee***

The Audit Committee monitors internal control policies and procedures designed to safeguard company assets and to maintain the integrity of financial reporting, which is consistent with ASX Principle 4.

The Audit Committee has the following specific responsibilities (as set out in its Charter):

- reviewing all published financial accounts of the company and discussing the accounts with the external auditors and management prior to submission to the Board;
- reviewing any changes in accounting policies or practices and subsequent effects on the financial accounts;
- reviewing with management, the terms of the external audit engagement;
- reviewing and assessing non-audit services to be provided by the external auditor;
- monitoring and assessing the systems for internal compliance and control, legal compliance and risk management;
- reviewing and monitoring the company's continuous disclosure policies and procedures; and
- advising on the appointment, performance and remuneration of the external auditor.

The members of the Audit Committee at the date of this report are:

- Mr David White (Chairman)
- Mr James Graham
- Mr Anthony Howarth (from 1 September 2007)
- Mr Richard Lester
- Mr Charles Macek

Mr Trevor Flügge served as a member of the committee until 3 July 2006 and Dr Robert Every served on the committee until 1 September 2007.

The Finance Director, the General Manager, Group Accounting, the Group Internal Audit Manager, the Company Secretary, the external auditor (Ernst & Young), and any other persons considered appropriate, attend meetings of the Audit Committee by invitation.

The committee also meets from time to time with the external auditor in the absence of management.

The composition, operations and responsibilities of the committee are consistent with ASX Principle 4.

The committee met eight times during the year ended 30 June 2007. Details of meeting attendance for committee members are set out in the Directors' Report on page 121 of this Annual Report.

The Audit Committee's Charter is made available from the corporate governance section of the company's website.

### **Independence of the External Auditor**

#### ***Appointment of auditor***

The company's external auditor is Ernst & Young. The effectiveness, performance and independence of the external auditor is reviewed by the Audit Committee. If it becomes necessary to replace the external auditor for performance or independence reasons, the Audit Committee will formalise a procedure and policy for the selection and appointment of a new auditor.

#### ***Independence declaration***

The Corporations Act 2001 requires the external auditor to make an annual independence declaration, addressed to the Board, declaring that the auditor has maintained its independence in accordance with the Corporations Act 2001 and the rules of the professional accounting bodies.

Ernst & Young has provided an independence declaration to the Board for the financial year ended 30 June 2007. The independence declaration forms part of the Directors' Report and is provided on page 124 of this Annual Report.

#### ***Rotation of lead external audit partner***

Mr Sean Van Gorp is the lead audit partner for Ernst & Young in relation to the audit of the company.

## Corporate governance documents

Please visit our website ([www.wesfarmers.com.au](http://www.wesfarmers.com.au)) to view this Corporate Governance Statement and summaries of corporate governance documents including:

**Board Charter**

**Board Code of Conduct**

**Audit Committee Charter**

**Code of Ethics and Conduct**

**Nomination Committee Charter**

**Market Disclosure Policy**

**Remuneration Committee Charter**

**Share Trading Policy**

Mr Van Gorp's appointment was effective on 1 July 2006. Mr Greg Meyerowitz was previously the lead audit partner.

#### **Restrictions on the performance of non-audit services by external auditors**

As part of the company's commitment to safeguarding integrity in financial reporting, the company has implemented procedures and policies to monitor the independence and competence of the company's external auditor.

The Audit Committee has implemented a process that requires the prior approval of the Company Secretary for the provision of any non-audit services to the company or its related companies by the external auditor. In cases of uncertainty, a proposed engagement is referred to the Audit Committee. The Audit Committee has also approved guidelines to assist in identifying the types of services that may compromise the independence of the external auditor. Examples of services that are considered to potentially compromise audit independence include valuation services and internal audit services. Details of fees paid (or payable) to Ernst & Young for non-audit services provided to the Wesfarmers group in the year ended 30 June 2007 are set out in the Directors' Report on page 123 of this Annual Report.

The Board has considered the nature of the non-audit services provided by the external auditor during the year and has determined that the services provided, and the amount paid for those services, are compatible with the general standard of independence for auditors imposed by the Corporations Act 2001 and that the auditor's independence has not been compromised.

#### **Attendance of external auditors at annual general meetings**

In accordance with ASX Principle 6 and the Corporations Act 2001, Ernst & Young attend and are available to answer questions at the company's annual general meetings. In addition to their right to ask questions at annual general meetings, shareholders may submit written questions for the external auditors to the Company Secretary no later than five business days before an annual general meeting.

## **PRINCIPLE 5: MAKE TIMELY AND BALANCED DISCLOSURE**

### **Continuous disclosure**

The company understands and respects that timely disclosure of price sensitive information is central to the efficient operation of the securities market and has adopted a comprehensive Market Disclosure Policy covering:

- announcements to the ASX;
- prevention of selective or inadvertent disclosure;
- conduct of investor and analysts briefings;
- media communications;
- commenting on expected earnings;
- communication black-out periods; and
- review of briefings and communications.

Under the Market Disclosure Policy, the Company Secretary, as the nominated disclosure officer, has responsibility for overseeing and co-ordinating the disclosure of information by the company to the ASX and for administering the policy and the group's continuous disclosure education programme.

The Company Secretary, as the disclosure officer, is also responsible for referring matters to the Board's disclosure committee. Matters referred to the disclosure committee, and decisions made by the committee, are recorded and referred to the Board at its next meeting. The disclosure committee is comprised of the Managing Director and the Finance Director.

The Market Disclosure Policy, and the associated training and education programme, is reviewed and monitored by the Audit Committee. Compliance with the policy is also monitored by the Board. The company's Market Disclosure Policy is consistent with ASX Principle 5. A summary of the policy is available from the corporate governance section of the company's website.

### **Additional company policies**

In addition to the policies on market disclosure and share trading, the company has adopted a range of policies which have group wide application. These policies allow for the divisions to establish policies and procedures governing their own operations while seeking to ensure that a consistent approach and minimum acceptable standards are maintained across the group.

## **PRINCIPLE 6: RESPECT THE RIGHTS OF SHAREHOLDERS**

### **Communications with shareholders**

The company places considerable importance on effective communications with shareholders. The company's communications strategy promotes the communication of information to shareholders through the distribution of an annual report and half-year report, announcements through the ASX and the media regarding changes in its businesses, and the Chairman's address at the annual general meeting. Wesfarmers also conducts live webcasts of major institutional investor and analysts briefings. These webcasts, together with annual and half-year reports, ASX and media releases, and copies of significant business presentations and speeches, can be accessed from the company's website.

The company also provides shareholders with the opportunity to receive email alerts of significant announcements and advises of the availability of reports on the company's website.

The company regularly reviews its communication strategy and underlying policies and processes to ensure effective communication with shareholders is maintained.

### **Annual general meeting**

The company's annual general meeting is a major forum for shareholders to ask questions about the performance of the Wesfarmers group. It is also an opportunity for shareholders to provide feedback to the company about information provided to shareholders.

In response to suggestions made by shareholders in 2006, the company has introduced an annual shareholder review, an easy to read summary of the annual report. A number of shareholders have elected to receive the review in place of the annual report. Both reports are available from the company's website.

## **Election to receive an electronic notification about the annual report**

Following recent changes to the Corporations Act 2001, the company will be offering shareholders the option of receiving an email about the release of future annual reports instead of receiving a hard copy report. Further information about the election to receive electronic notification of future annual reports is provided as part of the material to be sent to shareholders for the 2007 annual general meeting.

## **PRINCIPLE 7: RECOGNISE AND MANAGE RISK**

### **Risk identification and management**

Consistent with ASX Principle 7, the company is committed to the identification, monitoring and management of risks associated with its business activities and has embedded, in its management and reporting systems, a number of risk management controls.

The risk management controls adopted by the company include:

- guidelines and limits for approval of capital expenditure and investments;
- a group compliance programme supported by approved guidelines and standards covering safety, the environment, legal liability, risk identification, quantification and reporting, and financial controls;
- a comprehensive annual insurance programme including external risk surveys;
- policies and procedures for the management of financial risk and treasury operations, including exposures to foreign currencies and movements in interest rates;
- a formal dynamic planning process of preparing five year strategic plans each year for all businesses in the group;
- annual budgeting and monthly reporting systems for all businesses, which enable the monitoring of progress against performance targets and the evaluation of trends;
- directors' financial due diligence questionnaires to management;
- appropriate due diligence procedures for acquisitions and divestments; and
- crisis management systems for all key businesses in the group.

Management is ultimately responsible to the Board for the group's system of internal control and risk management. The Audit Committee assists the Board in relation to risk management and, at designated months of the year, receives reports from the divisions on risks associated with legal liability, financial controls, and environment, health and safety.

The internal audit function is independent of the external audit function. The Group Internal Audit Manager, who reports to the Finance Director, monitors the internal control framework of the group and provides reports to the Audit Committee. The Audit Committee approves the internal audit charter and the annual internal audit plan to ensure that planned audit activities are aligned to business risks. The Audit Committee also reviews internal audit reports issued by the Group Internal Audit Manager and monitors progress with recommendations made in those reports to ensure the adequacy of the internal control environment.

## **Risk management and integrity of financial reporting**

In accordance with ASX Principle 7, the Managing Director and Finance Director have provided the Board with a written statement for the year ended 30 June 2007 that:

- the statement given with respect to the integrity of the financial statements (referred to under the heading "Financial reporting" in **Principle 4: Safeguard Integrity in Financial Reporting**) was founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board; and
- the company's risk management and internal compliance and control system was operating efficiently and effectively in all material respects.

This statement was also signed by the General Manager, Group Accounting.

## **PRINCIPLE 8: ENCOURAGE ENHANCED PERFORMANCE**

### **Review of Board performance**

The Board will be conducting a self evaluation performance review in 2008 covering the Board and its standing committees. Feedback on the performance of the Board and its committees will be obtained through the completion of a detailed questionnaire by directors. The results will be considered by the Board as part of its annual planning session.

### **Review of performance by executive directors and senior executives**

Details of the performance review process for executive directors and senior executives are set out in the Remuneration Report, which forms part of the Directors' Report on pages 125 to 135 of this Annual Report.

## **PRINCIPLE 9: REMUNERATE FAIRLY AND RESPONSIBLY**

### **Board remuneration**

#### ***Remuneration pool***

The current annual remuneration pool for non-executive directors is \$2,250,000. This fee pool was approved by shareholders at the annual general meeting held on 8 November 2004.

It is proposed that the remuneration pool limit be increased to \$3 million per financial year (an increase of \$750,000) with effect from 1 January 2008. In accordance with the company's Constitution and the ASX Listing Rules, shareholders will be asked to consider and, if thought fit, pass a resolution approving the proposed increase at the annual general meeting to be held in November 2007. Further information about the proposed increase in the remuneration pool is provided in the notice of meeting.

Details of annual fee rates are set out in the Remuneration Report, which forms part of the Directors' Report on pages 125 to 135 of this Annual Report.

#### ***Non-executive director share plan***

A share plan for non-executive directors was approved by shareholders at the annual general meeting held on 1 November 2006. Directors can elect to participate in the share plan through a salary-sacrifice arrangement. Shares are held by the plan trustee and are subject to certain holding restrictions. Details of the share plan are set out in the Remuneration Report, which forms part of

the Directors' Report on pages 125 to 135 of this Annual Report. No shares were allocated to non-executive directors under the plan in the year ended 30 June 2007.

### Remuneration of executive directors and senior executives

Details of remuneration for executive directors and senior executives are set out in the Remuneration Report, which forms part of the Directors' Report on pages 125 to 135 of this Annual Report.

The Remuneration Report also sets out details of remuneration practices and policies of the Wesfarmers group.

Awards of shares made to executive directors under the company's long-term incentive plan are acquired on-market during the ordinary course of trading on the ASX. Under ASX Listing Rule 10.14, there is no obligation on the company to obtain shareholder approval for the acquisition of shares on behalf of the executive directors. There is no dilution of shareholders' interests as the shares are acquired on-market.

### Remuneration committee

The specific responsibilities of the Remuneration Committee are set out in the committee's Charter, which reflects the requirements of ASX Principle 9.

The Remuneration Committee's responsibilities include:

- reviewing and making recommendations to the Board on remuneration for the non-executive directors and fixed and variable remuneration of the Managing Director (including the level of participation in the long-term incentive plan);
- reviewing and approving recommendations from the Managing Director on fixed and variable remuneration for senior executives (including the level and nature of participation in the long-term incentive plan); and
- reviewing and approving human resources policies and practices for senior executives.

The Remuneration Committee was established as a separate Board committee from 1 January 2007. In the period from 1 July to 31 December 2006, the remuneration functions were carried out by the Nomination and Remuneration Committee.

The members of the Remuneration Committee at the date of this report are:

- Mr Trevor Eastwood (Chairman)
- Mr Colin Carter
- Mrs Patricia Cross
- Dr Robert Every (from 1 September 2007)

The members of the Nomination and Remuneration Committee were:

- Mr Trevor Eastwood
- Mr Colin Carter
- Mrs Patricia Cross
- Mr Trevor Flügge (until 3 July 2006)
- Mr Lou Giglia (until 1 November 2006)

The composition, operation and responsibilities of the committee are consistent with ASX Principle 9.

The committee (as the Remuneration Committee or as part of the Nomination and Remuneration Committee) met once during the year ended 30 June 2007. Details of meeting attendance for committee members are set out in the Directors' Report on page 121 of this Annual Report.

A summary of the committee's role, rights, responsibilities and membership requirements is available from the corporate governance section of the company's website.

### PRINCIPLE 10: RECOGNISE THE LEGITIMATE INTERESTS OF STAKEHOLDERS

As detailed under **Principle 3: Promote Ethical and Responsible Decision-Making**, the Board has adopted:

- a Code of Conduct to guide the directors and promote high ethical and professional standards and responsible decision-making; and
- a Code of Ethics and Conduct for all employees (including directors), which is aimed at maintaining the highest ethical standards, corporate behaviour and accountability across the group.

Corporate  
governance  
practices

For further information about Wesfarmers' corporate governance practices, please visit:

[www.wesfarmers.com.au](http://www.wesfarmers.com.au)

# Financial statements

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# Income statement

for the year ended 30 June 2007 – Wesfarmers Limited and its controlled entities

	NOTE	CONSOLIDATED		PARENT	
		2007 \$000	2006 \$000	2007 \$000	2006 \$000
<b>Revenue</b>					
Sale of goods		<b>8,238,505</b>	7,610,595	<b>131,855</b>	159,644
Rendering of services		<b>1,427,845</b>	1,207,696	<b>63,039</b>	60,413
Interest – subsidiaries		–	–	<b>19,416</b>	8,825
Interest – other		<b>71,620</b>	35,244	<b>3,520</b>	2,373
Dividends – subsidiaries		–	–	<b>840,815</b>	1,007,749
Dividends – other		<b>402</b>	786	<b>2</b>	–
Other		<b>15,341</b>	4,480	<b>58</b>	4,595
		<b>9,753,713</b>	8,858,801	<b>1,058,705</b>	1,243,599
<b>Expenses</b>					
Raw materials and inventory purchased		<b>(4,799,027)</b>	(4,118,628)	<b>(74,113)</b>	(93,882)
Employee benefits expense	4	<b>(1,411,041)</b>	(1,221,344)	<b>(44,762)</b>	(36,215)
Insurance expenses		<b>(972,654)</b>	(847,252)	<b>(54,418)</b>	(58,953)
Occupancy-related expenses		<b>(244,426)</b>	(223,890)	<b>(4,440)</b>	(3,441)
Freight and other related expenses		<b>(188,180)</b>	(176,217)	–	–
Depreciation and amortisation	4	<b>(344,748)</b>	(283,467)	<b>(2,064)</b>	(1,761)
Other		<b>(611,972)</b>	(683,764)	<b>(9,485)</b>	(10,856)
		<b>(8,572,048)</b>	(7,554,562)	<b>(189,282)</b>	(205,108)
Gain on sale of shares in associate		<b>6,183</b>	234,859	–	–
Other income	4	<b>34,380</b>	4,896	<b>143</b>	721
Finance costs	4	<b>(200,322)</b>	(133,837)	<b>(188,184)</b>	(116,318)
Share of profits and losses of associates	15	<b>83,062</b>	56,898	–	–
<b>Profit before income tax</b>		<b>1,104,968</b>	1,467,055	<b>681,382</b>	922,894
Income tax (expense)/credit	5	<b>(318,481)</b>	(418,913)	<b>44,746</b>	45,966
<b>Profit after tax from continuing operations</b>		<b>786,487</b>	1,048,142	<b>726,128</b>	968,860
Profit attributable to minority interests		<b>(149)</b>	–	–	–
<b>Profit attributable to members of the parent</b>		<b>786,338</b>	1,048,142	<b>726,128</b>	968,860
Earnings per share (cents per share)	6				
– basic for profit for the year attributable to ordinary equity holders of the parent		<b>210.5</b>	284.0		
– diluted for profit for the year attributable to ordinary equity holders of the parent		<b>208.1</b>	280.9		
Dividends per share paid or declared out of profits for the year (cents per share)	7	<b>225</b>	215		

# Balance sheet

at 30 June 2007 – Wesfarmers Limited and its controlled entities

	NOTE	CONSOLIDATED		PARENT	
		2007 \$000	2006 \$000	2007 \$000	2006 \$000
<b>Assets</b>					
<b>Current Assets</b>					
Cash and cash equivalents	8	218,549	90,046	16,695	33,292
Trade and other receivables	9	1,512,528	1,140,644	4,966,003	1,340,707
Inventories	10	1,235,019	1,146,398	–	–
Derivatives		89,944	43,776	97,251	47,064
Investments backing insurance contracts	11	816,201	559,055	–	–
Other	12	151,706	153,673	–	752
<b>Total Current Assets</b>		<b>4,023,947</b>	<b>3,133,592</b>	<b>5,079,949</b>	<b>1,421,815</b>
<b>Non-current Assets</b>					
Receivables	9	112,487	113,562	8,835	5,262
Available-for-sale financial assets	13	2,063,988	5,755	–	–
Other financial assets	14	–	–	2,898,821	2,934,110
Investment in associates	15	389,237	279,213	–	–
Deferred tax assets	5	–	–	7,580	5,852
Property, plant and equipment	16	2,715,894	2,396,236	24,598	24,750
Intangible assets and goodwill	17	2,698,118	1,470,212	–	–
Derivatives		72,578	31,655	72,582	33,509
<b>Total Non-current Assets</b>		<b>8,052,302</b>	<b>4,296,633</b>	<b>3,012,416</b>	<b>3,003,483</b>
<b>Total Assets</b>		<b>12,076,249</b>	<b>7,430,225</b>	<b>8,092,365</b>	<b>4,425,298</b>
<b>Liabilities</b>					
<b>Current Liabilities</b>					
Trade and other payables	18	1,254,152	752,908	40,506	16,797
Interest-bearing loans and borrowings	19	4,435,996	468,038	4,164,916	321,145
Income tax payable		97,988	213,708	102,094	231,652
Provisions	20	169,227	141,120	10,337	5,882
Derivatives		13,092	4,171	96,417	46,826
Insurance liabilities	21	1,138,803	873,917	26,404	30,762
Other	22	72,455	124,614	–	–
<b>Total Current Liabilities</b>		<b>7,181,713</b>	<b>2,578,476</b>	<b>4,440,674</b>	<b>653,064</b>
<b>Non-current Liabilities</b>					
Payables	18	78,517	4,352	–	–
Interest-bearing loans and borrowings	19	686,643	1,074,875	678,501	1,071,118
Deferred tax liabilities	5	144,368	57,335	–	–
Provisions	20	169,923	258,778	10,596	9,846
Derivatives		106	7,966	69,727	35,956
Insurance liabilities	21	279,175	225,417	–	–
Other	22	32,670	57,027	–	–
<b>Total Non-current Liabilities</b>		<b>1,391,402</b>	<b>1,685,750</b>	<b>758,824</b>	<b>1,116,920</b>
<b>Total Liabilities</b>		<b>8,573,115</b>	<b>4,264,226</b>	<b>5,199,498</b>	<b>1,769,984</b>
<b>Net Assets</b>		<b>3,503,134</b>	<b>3,165,999</b>	<b>2,892,867</b>	<b>2,655,314</b>
<b>Equity</b>					
<b>Equity attributable to equity holders of the parent</b>					
Contributed equity	23	2,255,958	1,901,522	2,249,697	1,895,261
Employee reserved shares	23	(111,182)	(159,492)	(107,675)	(152,002)
Retained earnings		1,131,004	1,233,898	637,744	800,848
Reserves	24	227,153	190,019	113,101	111,207
<b>Parent interests</b>		<b>3,502,933</b>	<b>3,165,947</b>	<b>2,892,867</b>	<b>2,655,314</b>
<b>Minority interests</b>	25	201	52	–	–
<b>Total Equity</b>		<b>3,503,134</b>	<b>3,165,999</b>	<b>2,892,867</b>	<b>2,655,314</b>

# Cash flow statement

for the year ended 30 June 2007 – Wesfarmers Limited and its controlled entities

	NOTE	CONSOLIDATED		PARENT	
		2007 \$000	2006 \$000	2007 \$000	2006 \$000
<b>Cash flows from operating activities</b>					
Receipts from customers		10,732,712	9,626,613	248,489	165,512
Payments to suppliers and employees		(8,918,226)	(8,148,290)	(125,101)	(161,556)
Dividends received from subsidiaries		–	–	840,817	1,007,749
Dividends and distributions received from associates		23,733	44,238	–	–
Dividends received from others		402	786	–	–
Interest received		65,057	35,244	22,933	11,198
Borrowing costs		(191,793)	(122,317)	(181,778)	(116,318)
Income tax paid		(411,290)	(307,220)	(419,381)	(296,121)
Reimbursements received from tax consolidated entities		–	–	520,903	322,604
<b>Net cash flows from operating activities</b>	8	<b>1,300,595</b>	<b>1,129,054</b>	<b>906,882</b>	<b>933,068</b>
<b>Cash flows from investing activities</b>					
Net acquisition of insurance deposits		(111,241)	(24,465)	–	–
Purchase of property, plant and equipment	16	(679,874)	(614,781)	(2,309)	(3,248)
Proceeds from sale of property, plant and equipment		48,348	16,399	380	1,091
Proceeds from sale of available-for-sale financial assets		–	7,482	–	–
Subscription of capital in associates		(32,247)	(16,999)	–	–
Proceeds from sale of investment in associate		10,724	430,719	–	–
Return of capital received from associates		2,999	3,303	–	–
Repayment of loans from associates		(5,510)	1,350	100	–
Acquisition of subsidiaries, net of cash acquired	26	(1,338,987)	(1,470)	–	–
Purchase of available-for-sale financial assets		(2,088,297)	–	(290)	–
Net advances/(repayments) to subsidiaries		–	–	(3,850,457)	599
Other		–	(2,468)	–	–
<b>Net cash flows used in investing activities</b>		<b>(4,194,085)</b>	<b>(200,930)</b>	<b>(3,852,576)</b>	<b>(1,558)</b>
<b>Cash flows from financing activities</b>					
Proceeds from borrowings		3,943,991	28,752	3,851,068	10,015
Repayment of borrowings		(399,738)	(279,626)	(399,738)	(263,187)
Proceeds from exercise of in-substance options under the employee share plan	23	32,151	36,496	28,212	35,022
Equity dividends paid		(764,864)	(707,669)	(764,864)	(707,669)
Proceeds from issue of shares	23	214,419	–	214,419	–
<b>Net cash flows from/(used in) financing activities</b>		<b>3,025,959</b>	<b>(922,047)</b>	<b>2,929,097</b>	<b>(925,819)</b>
Net increase/(decrease) in cash and cash equivalents		132,469	6,077	(16,597)	5,691
Cash and cash equivalents at beginning of period		83,115	77,038	33,292	27,601
<b>Cash and cash equivalents at end of period</b>	8	<b>215,584</b>	<b>83,115</b>	<b>16,695</b>	<b>33,292</b>

# Statement of changes in equity

for the year ended 30 June 2007 – Wesfarmers Limited and its controlled entities

		ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT						
	NOTE	ISSUED CAPITAL \$000	EMPLOYEE RESERVED SHARES \$000	RETAINED EARNINGS \$000	RESERVES \$000	TOTAL \$000	MINORITY INTEREST \$000	TOTAL EQUITY \$000
<b>Consolidated</b>								
<b>Balance at 1 July 2005</b>		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	24	–	–	–	(481)	(481)	–	(481)
Changes in the fair value of available-for-sale assets net of tax	24	–	–	–	(1,791)	(1,791)	–	(1,791)
Changes in the fair value of cash flow hedges net of tax	24	–	–	–	(28,479)	(28,479)	–	(28,479)
Other	23	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	23	–	36,496	–	–	36,496	–	36,496
Equity dividends	7, 23	–	18,173	(725,842)	–	(707,669)	–	(707,669)
		–	54,669	(725,842)	–	(671,173)	–	(671,173)
<b>Balance at 30 June 2006</b>		1,901,522	(159,492)	1,233,898	190,019	3,165,947	52	3,165,999
<b>Balance at 1 July 2006</b>		1,901,522	(159,492)	1,233,898	190,019	3,165,947	52	3,165,999
Foreign currency translation differences		–	(619)	–	8,061	7,442	–	7,442
Changes in the fair value of available-for-sale assets net of tax	24	–	–	–	(31,637)	(31,637)	–	(31,637)
Changes in the fair value of cash flow hedges net of tax	24	–	–	–	60,682	60,682	–	60,682
Other	24	–	–	–	28	28	–	28
Net profit/(loss) recognised directly in equity		–	(619)	–	37,134	36,515	–	36,515
Net profit for the year		–	–	786,338	–	786,338	149	786,487
Total recognised income and expense for the year		–	(619)	786,338	37,134	822,853	149	823,002
Transactions with equity holders in their capacity as equity holders:								
Issue of shares under employee long term incentive plans	23	33,856	–	–	–	33,856	–	33,856
Issue of shares under dividend investment plan	23	106,161	–	–	–	106,161	–	106,161
Issue of shares under underwriting agreement	23	214,419	–	–	–	214,419	–	214,419
Proceeds from exercise of in-substance options	23	–	32,151	–	–	32,151	–	32,151
Equity dividends	7, 23	–	16,778	(889,232)	–	(872,454)	–	(872,454)
		354,436	48,929	(889,232)	–	(485,867)	–	(485,867)
<b>Balance at 30 June 2007</b>		2,255,958	(111,182)	1,131,004	227,153	3,502,933	201	3,503,134

# Statement of changes in equity

for the year ended 30 June 2007 – Wesfarmers Limited and its controlled entities

	NOTE	ISSUED CAPITAL \$000	EMPLOYEE RESERVED SHARES \$000	RETAINED EARNINGS \$000	RESERVES \$000	TOTAL \$000
<b>Parent</b>						
<b>Balance at 1 July 2005</b>		1,895,261	(204,512)	557,830	108,911	2,357,490
Tax losses reversed in relation to the 2001 simplification plan	24	–	–	–	(481)	(481)
Changes in the fair value of cash flow hedges net of tax	24	–	–	–	2,777	2,777
Net profit recognised directly in equity		–	–	–	2,296	2,296
Net profit for the year		–	–	968,860	–	968,860
Total recognised income and expense for the year		–	–	968,860	2,296	971,156
Transactions with equity holders in their capacity as equity holders:						
Proceeds from exercise of in-substance options	23	–	35,022	–	–	35,022
Equity dividends	7, 23	–	17,488	(725,842)	–	(708,354)
		–	52,510	(725,842)	–	(673,332)
<b>Balance at 30 June 2006</b>		1,895,261	(152,002)	800,848	111,207	2,655,314
<b>Balance at 1 July 2006</b>		1,895,261	(152,002)	800,848	111,207	2,655,314
Changes in the fair value of cash flow hedges net of tax	24	–	–	–	1,894	1,894
Net profit recognised directly in equity		–	–	–	1,894	1,894
Net profit for the year		–	–	726,128	–	726,128
Total recognised income and expense for the year		–	–	726,128	1,894	728,022
Transactions with equity holders in their capacity as equity holders:						
Issue of shares under employee long term incentive plans	23	33,856	–	–	–	33,856
Issue of shares under dividend investment plan	23	106,161	–	–	–	106,161
Issue of shares under underwriting agreement	23	214,419	–	–	–	214,419
Proceeds from exercise of in-substance options	23	–	28,212	–	–	28,212
Equity dividends	7, 23	–	16,115	(889,232)	–	(873,117)
		354,436	44,327	(889,232)	–	(490,469)
<b>Balance at 30 June 2007</b>		2,249,697	(107,675)	637,744	113,101	2,892,867

# Notes to the financial statements

for the year ended 30 June 2007 – Wesfarmers Limited and its controlled entities

## 1 CORPORATE INFORMATION

The financial report of Wesfarmers Limited (“the Company”) for the year ended 30 June 2007 was authorised for issue in accordance with a resolution of the directors on 11 September 2007. Wesfarmers Limited (“Wesfarmers”) is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Securities Exchange.

The nature of the operations and principal activities of Wesfarmers Limited and its subsidiaries (“the Group”) are described in note 3.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### (a) Basis of preparation

The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001 and Australian Accounting Standards. The financial report has also been prepared on a historical cost basis, except for investment properties in associates, derivative financial instruments and available-for-sale investments, which have been measured at fair value. The carrying values of recognised assets and liabilities that are hedged items in fair value hedges, and are otherwise carried at cost, are adjusted to record changes in the fair values attributable to the risks that are being hedged.

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

In the current year, the Group has changed the presentation of the income statement to using a classification based on the nature of expenses, rather than the function. Presentation of the nature of expenses reflects more appropriately the manner in which the diversified Group manages its expenses. Comparative amounts were reclassified for consistency.

### (b) Statement of compliance

The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards (“AIFRS”). The financial report also complies with International Financial Reporting Standards (“IFRS”).

The Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (‘the AASB’) that are relevant to the operations of the Group and effective for reporting periods beginning on or after 1 July 2006. The adoption of these standards gives rise to additional disclosure however did not have material effect on the financial statements of the Group.

A number of Australian Accounting Standards and Interpretations have been issued or amended but are not yet effective. The impact of these new or amended Accounting Standards is not expected to give rise to material changes in the Group’s financial statements, other than additional disclosures.

During the prior financial year, the Group adopted AASB 132 Financial Instruments: Disclosure and Presentation and AASB 139 Financial Instruments: Recognition and Measurement in accordance with AIFRS transition rules. These changes were accounted for by adjusting the opening balance of retained earnings and reserves at 1 July 2005, as disclosed in the Statement of Changes in Equity.

### (c) Basis of consolidation

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

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

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

Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. Investments in subsidiaries are accounted for by the parent at cost less any allowance for impairment.

Acquisitions are accounted for using the purchase method of accounting. The purchase method of accounting involves allocating the cost of the business combination to the fair value of the assets acquired and the liabilities and contingent liabilities assumed at the date of acquisition.

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

# Notes to the financial statements

for the year ended 30 June 2007 – Wesfarmers Limited and its controlled entities

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

#### *Significant accounting judgements*

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

#### *Income tax*

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

Further, the Group is undergoing a review by the Australian Taxation Office on the implementation of the taxation consolidation rules in relation to the generation of capital losses. As outlined in note 29 Commitments and Contingencies in relation to the ongoing review of capital losses by the Australian Taxation Office, the Group has exercised its judgment that the Group's treatment is correct and will prevail. Refer to note 29 for further details.

#### *Significant accounting estimates and assumptions*

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

#### *Impairment of goodwill*

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the recoverable amount of the cash generating units to which the goodwill is allocated. The assumptions used in this estimation of recoverable amount and the carrying amount of goodwill are discussed in note 17.

#### *Rights to mine and coal rebates payable*

The Group determines the carrying values to be recognised for the right to mine the Curragh North deposit and the corresponding rebates payable to Stanwell Corporation upon signing contracts for the supply of export coal, as this crystallises a present obligation for the payment of the rebates. This calculation involves the estimation of tonnages to be supplied, USD/AUD exchange rates, coal prices and discount rates. Refer to note 20 and 22 for further details.

#### *Insurance liabilities – outstanding insurance claims*

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

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

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

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

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

# Notes to the financial statements

for the year ended 30 June 2007 – Wesfarmers Limited and its controlled entities

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

Refer to note 21 for further details.

#### *Assets arising from reinsurance contracts*

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

### (e) Revenue

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

- sale of goods – revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and can be measured reliably. Risks and rewards are considered passed to the buyer at the time of delivery of the goods to the customer;
- rendering of services – services have been rendered to a buyer by reference to stage of completion;
- interest – revenue is recognised as the interest accrues (using the effective interest method, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument) to the net carrying amount of the financial asset; and
- dividends – revenue is recognised when the shareholders' right to receive the payment is established.

### (f) Borrowing costs

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

The capitalisation rate used to determine the amount of borrowing costs to be capitalised is the weighted average interest rate applicable to the entity's outstanding borrowings during the period, in this case 6.51% (2006: 5.94%).

### (g) Leases

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

#### *Group as a lessee*

Leases in which the lessor retains substantially all the risks and benefits of ownership of the leased asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as rental income. Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

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

### (h) Cash and cash equivalents

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

In accordance with local laws, all broking receipts are held in separate insurance broking bank accounts and approved investments. Disbursements of these monies can only be made in accordance with local laws. Amounts held by entities within the consolidated entity in these accounts and investments outstanding at balance sheet date are included in cash and cash equivalents.

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.



# Notes to the financial statements

for the year ended 30 June 2007 – Wesfarmers Limited and its controlled entities

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (i) Trade and other receivables

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

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

### (j) Inventories

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

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

- raw materials – purchase cost on a weighted average basis;
- uncovered coal reserves inventory – production costs of drilling, blasting and overburden removal in the value of run-of-mine coal stock;
- 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.

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.

### (k) Derivative financial instruments and hedging

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

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

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

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

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

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

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

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

#### **Fair value hedges**

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

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

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

# Notes to the financial statements

for the year ended 30 June 2007 – Wesfarmers Limited and its controlled entities

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (k) Derivative financial instruments and hedging (continued)

#### *Cash flow hedges*

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

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

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

### (l) Derecognition of financial assets and financial liabilities

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

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

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

### (m) Impairment of financial assets

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

#### *Financial assets carried at amortised cost*

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

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

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

#### *Financial assets carried at cost*

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

#### *Available-for-sale investments*

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

# Notes to the financial statements

for the year ended 30 June 2007 – Wesfarmers Limited and its controlled entities

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (n) Foreign currency translation

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

Transactions in foreign currencies are initially recorded in the functional currency at the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. All exchange differences in the consolidated financial report are taken to the income statement with the exception of differences on foreign currency borrowings that provide a hedge against a net investment in a foreign entity. These are taken directly to equity until the disposal of the net investment, at which time they are recognised in the income statement.

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

The functional currency of overseas subsidiaries is listed in note 32.

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

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

### (o) Investment in associates

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

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

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

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

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

### (p) Interest in a jointly controlled assets

The Group has interests in joint ventures that are jointly controlled assets. A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control. A jointly controlled asset involves use of assets and other resources of the venturers rather than establishment of a separate entity. The Group recognises its interest in the jointly controlled assets by recognising the assets that it controls and the liabilities that it incurs. The Group also recognises the expenses that it incurs and the income that it earns from the sale of the output produced by the jointly controlled assets.

### (q) Income tax

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

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

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

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

# Notes to the financial statements

for the year ended 30 June 2007 – Wesfarmers Limited and its controlled entities

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (q) Income tax (continued)

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

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

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

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

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

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

### (r) Other taxes

Revenues, expenses and assets are recognised net of the amount of goods and services tax (“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.

### (s) Property, plant and equipment

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

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

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

- Buildings 20-40 years
- Plant and equipment 3-40 years

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

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

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

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

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

# Notes to the financial statements

for the year ended 30 June 2007 – Wesfarmers Limited and its controlled entities

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (t) Investments and other financial assets

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

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

#### **Financial assets at fair value through profit or loss**

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

#### **Held-to-maturity investments**

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

#### **Loans and receivables**

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

#### **Available-for-sale investments**

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

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments with no active market, fair value is determined by reference to the current market value of another instrument which is substantially the same or is calculated based on the expected cash flows of the underlying net asset base of the investment.

### (u) Goodwill

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

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

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

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

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

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

# Notes to the financial statements

for the year ended 30 June 2007 – Wesfarmers Limited and its controlled entities

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (u) Goodwill (continued)

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

Impairment losses recognised for goodwill are not subsequently reversed.

### (v) Intangible Assets

Intangible assets acquired separately or in a business combination are initially measured at cost. The cost of an intangible asset acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is recognised in the profit and loss in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful life and tested for impairment whenever there is an indication that the intangible asset may be impaired. Intangible assets with indefinite lives are tested for impairment annually either individually or at the cash-generating unit level.

Amortisation is calculated on a straight line basis over the estimated useful life of the intangible assets which range from 1-51 years.

### (w) Impairment

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

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses relating to continuing operations are recognised in those expense categories consistent with the function of the impaired asset.

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

### (x) Trade and other payables

Trade payables and other payables are carried at amortised cost and represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. Trade payables are non-interest bearing and are normally settled on 7 to 60 day terms.

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

### (y) Interest-bearing loans and borrowings

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

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

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

# Notes to the financial statements

for the year ended 30 June 2007 – Wesfarmers Limited and its controlled entities

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (z) 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 the risks specific to the liability to the extent they are not already reflected in the cash flows.

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

#### ***Mine and plant rehabilitation***

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

#### ***Restructure***

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

#### ***Profit-sharing and bonus plans***

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

### (aa) Employee leave benefits

#### ***Wages, salaries and annual leave***

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

#### ***Long service leave***

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

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.

### (ab) Pensions benefits

#### ***Defined contribution plan***

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

#### ***Defined benefit plan***

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

The defined benefit asset or liability recognised in the balance sheet represents the present value of the defined benefit obligation, adjusted for unrecognised past service cost, net of the fair value of the plan assets. Any asset resulting from this calculation is limited to past service costs, plus the present value of available refunds and reductions in future contributions to the plan.

# Notes to the financial statements

for the year ended 30 June 2007 – Wesfarmers Limited and its controlled entities

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (ac) Share-based payment transactions

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

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

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

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

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

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

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

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

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

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

The WESP is accounted for as an "in-substance" option plan due to the limited recourse nature of the loan. The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share.

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

### (ad) 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.

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

### (ae) Insurance activities

#### *Insurance premium revenue*

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

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

#### *Unearned premium*

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

At each balance date, the adequacy of the unearned premium liability is assessed on a net of reinsurance basis against the present value of the expected future cash flows relating to potential future claims in respect of the relevant insurance contracts, plus an additional risk margin to reflect the inherent uncertainty of the central estimate.



# Notes to the financial statements

for the year ended 30 June 2007 – Wesfarmers Limited and its controlled entities

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (ae) Insurance activities (continued)

#### *Outwards reinsurance*

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

#### *Outstanding claims liability*

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

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

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

#### *Reinsurance and other recoveries receivable*

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

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

#### *Deferred acquisition costs*

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

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

#### *Insurance investments*

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

With the exception of plant and equipment, the Group has determined that all assets in the Insurance division are held to back general insurance liabilities. As these assets are managed and reported to the Board on a fair value basis, these assets are carried at fair value with movements in fair value recognised in the Income Statement.

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

#### *Fire brigade and other charges*

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

### (af) Earnings per share

#### *Basic earnings per share*

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

#### *Diluted earnings per share*

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

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

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

# Notes to the financial statements

for the year ended 30 June 2007 – Wesfarmers Limited and its controlled entities

## 3 SEGMENT INFORMATION

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

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

The business segments are as follows:

### **Home improvement**

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

### **Coal**

Coal mining and development; and  
Coal marketing to both domestic and export markets.

### **Energy**

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

### **Insurance**

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

### **Industrial and safety distribution**

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

### **Chemicals and fertilisers**

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

### **Other**

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

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

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

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

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

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

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

# Notes to the financial statements

for the year ended 30 June 2007 – Wesfarmers Limited and its controlled entities

## 3 SEGMENT INFORMATION (continued)

	HOME IMPROVEMENT		ENERGY		COAL	
	2007 \$000	2006 \$000	2007 \$000	2006 \$000	2007 \$000	2006 \$000
<b>Segment revenue</b>	<b>4,938,941</b>	4,275,487	<b>462,957</b>	371,902	<b>1,133,725</b>	1,304,157
<b>Segment result</b>						
Earnings before interest, tax, depreciation, amortisation (EBITDA) and corporate overheads	<b>586,396</b>	470,443	<b>104,061</b>	74,124	<b>519,534</b>	720,837
Depreciation and amortisation	<b>(57,988)</b>	(49,990)	<b>(28,689)</b>	(24,729)	<b>(181,533)</b>	(143,067)
Earnings before interest, tax (EBIT) and corporate overheads	<b>528,408</b>	420,453	<b>75,372</b>	49,395	<b>338,001</b>	577,770
Consolidation adjustment						
Finance costs						
Corporate overheads						
Profit before income tax expense						
Income tax expense						
Profit attributable to minority interests						
<b>Profit attributable to members of the parent</b>						
<b>Assets and liabilities</b>						
Segment assets	<b>2,398,629</b>	2,340,461	<b>818,865</b>	261,202	<b>1,284,704</b>	1,334,767
Investments in associates	–	–	<b>10,136</b>	13,009	<b>94</b>	486
Total assets						
Segment liabilities	<b>424,254</b>	326,302	<b>104,325</b>	76,756	<b>324,980</b>	516,349
Tax liabilities						
Interest bearing liabilities						
Total liabilities						
<b>Other segment information</b>						
Capital expenditure	<b>196,323</b>	222,284	<b>78,075</b>	49,533	<b>178,369</b>	236,469
Share of net profit or loss of associates included in segment result	–	–	<b>5,968</b>	5,439	–	(42)
Non-cash expenses other than depreciation and amortisation	<b>75,772</b>	60,729	<b>6,012</b>	568	<b>14,270</b>	28,580

# Notes to the financial statements

for the year ended 30 June 2007 – Wesfarmers Limited and its controlled entities

INDUSTRIAL & SAFETY		INSURANCE		CHEMICALS & FERTILISERS		OTHER		CONSOLIDATED	
2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
<b>1,208,031</b>	1,177,669	<b>1,409,613</b>	1,117,249	<b>592,092</b>	595,204	<b>8,354</b>	17,133	<b>9,753,713</b>	8,858,801
<b>128,246</b>	110,987	<b>144,092</b>	132,846	<b>137,576</b>	123,068	<b>96,927</b>	308,903	<b>1,716,832</b>	1,941,208
<b>(13,675)</b>	(14,158)	<b>(23,808)</b>	(8,007)	<b>(36,958)</b>	(41,688)	<b>(2,097)</b>	(1,828)	<b>(344,748)</b>	(283,467)
<b>114,571</b>	96,829	<b>120,284</b>	124,839	<b>100,618</b>	81,380	<b>94,830</b>	307,075	<b>1,372,084</b>	1,657,741
								<b>(6,465)</b>	(6,480)
								<b>(200,322)</b>	(133,837)
								<b>(60,329)</b>	(50,369)
								<b>1,104,968</b>	1,467,055
								<b>(318,481)</b>	(418,913)
								<b>(149)</b>	–
								<b>786,338</b>	1,048,142
<b>929,874</b>	900,895	<b>3,199,481</b>	1,562,609	<b>747,012</b>	565,705	<b>2,308,447</b>	185,373	<b>11,687,012</b>	7,151,012
–	–	<b>26,893</b>	–	<b>60,152</b>	52,293	<b>291,962</b>	213,425	<b>389,237</b>	279,213
								<b>12,076,249</b>	7,430,225
<b>172,477</b>	146,920	<b>1,972,621</b>	1,214,520	<b>127,309</b>	89,390	<b>82,154</b>	80,033	<b>3,208,120</b>	2,450,270
								<b>242,356</b>	271,043
								<b>5,122,639</b>	1,542,913
								<b>8,573,115</b>	4,264,226
<b>25,832</b>	16,344	<b>14,928</b>	20,848	<b>198,719</b>	72,528	<b>2,333</b>	3,258	<b>694,579</b>	621,264
–	–	<b>623</b>	–	<b>7,736</b>	3,088	<b>68,735</b>	48,413	<b>83,062</b>	56,898
<b>16,743</b>	15,812	<b>15,066</b>	2,168	<b>3,305</b>	(242)	<b>6,263</b>	6,384	<b>137,431</b>	113,999

# Notes to the financial statements

for the year ended 30 June 2007 – Wesfarmers Limited and its controlled entities

	CONSOLIDATED		PARENT	
	2007 \$000	2006 \$000	2007 \$000	2006 \$000
<b>4 REVENUE AND EXPENSES</b>				
<b>Other income</b>				
Gains on disposal of available-for-sale investments	–	1,722	–	–
Gains on disposal of property, plant and equipment	21,313	3,174	143	721
Settlement and other income	13,067	–	–	–
	<b>34,380</b>	<b>4,896</b>	<b>143</b>	<b>721</b>
<b>Finance costs</b>				
Interest expense	201,826	123,991	184,625	116,318
Discount adjustment	9,395	14,334	–	–
Interest capitalised	(14,705)	(4,488)	–	–
Other	3,806	–	3,559	–
	<b>200,322</b>	<b>133,837</b>	<b>188,184</b>	<b>116,318</b>
<b>Employee benefits expense</b>				
Remuneration, bonuses and on-costs	1,178,304	1,025,133	31,743	27,057
Defined contributions expense	107,271	91,725	3,034	3,709
Amounts provided for employee entitlements	87,650	77,407	1,547	3,657
Share based payments expense (note 36)	37,816	27,079	8,438	1,792
	<b>1,411,041</b>	<b>1,221,344</b>	<b>44,762</b>	<b>36,215</b>
<b>Depreciation and amortisation</b>				
Depreciation	193,205	184,954	2,029	1,725
Amortisation of mineral lease and development costs	136,827	93,845	–	–
Other amortisation	14,716	4,668	35	36
	<b>344,748</b>	<b>283,467</b>	<b>2,064</b>	<b>1,761</b>
<b>Other expenses included in income statement</b>				
Bad and doubtful debts				
Trade receivables	4,721	5,241	–	–
Finance advances and loans	–	961	–	–
Writedown of inventory to net realisable value	16,789	28,707	–	–
Government mining royalties	67,209	72,971	–	–
Repairs and maintenance	80,490	75,185	104	–
Research and development costs charged to cost of sales	542	2,149	–	–

# Notes to the financial statements

for the year ended 30 June 2007 – Wesfarmers Limited and its controlled entities

	CONSOLIDATED		PARENT	
	2007 \$000	2006 \$000	2007 \$000	2006 \$000
<b>4 REVENUE AND EXPENSES (continued)</b>				
<b>Other expenses by function (prior year)</b>				
Cost of sales		4,823,434		93,882
Direct service expenses		794,645		60,879
Distribution expenses		198,145		–
Sales and marketing expenses		1,277,053		–
Administrative expenses		374,838		50,347
Other expenses		86,447		–
		<u>7,554,562</u>		<u>205,108</u>
<b>Insurance underwriting result</b>				
Premium revenue	<b>1,187,930</b>	1,073,866		
Outwards reinsurance premium expense	<b>(299,688)</b>	(290,706)		
Net premium revenue	<b>888,242</b>	783,160		
Claims expense – undiscounted	<b>(810,028)</b>	(808,510)		
Discount effect	<b>10,331</b>	11,367		
Reinsurance and other recoveries revenue – undiscounted	<b>274,424</b>	352,248		
Discount effect	<b>(2,170)</b>	(4,007)		
Net claims incurred	<b>(527,443)</b>	(448,902)		
Acquisition costs	<b>(165,151)</b>	(129,550)		
Other underwriting expenses	<b>(100,629)</b>	(74,438)		
Net underwriting expenses	<b>(265,780)</b>	(203,988)		
Underwriting result	<b>95,019</b>	130,270		

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

# Notes to the financial statements

for the year ended 30 June 2007 – Wesfarmers Limited and its controlled entities

	CONSOLIDATED		PARENT	
	2007 \$000	2006 \$000	2007 \$000	2006 \$000
<b>5 INCOME TAX</b>				
The major components of income tax expense are:				
<b>Income statement</b>				
<b>Current income tax</b>				
Current income tax charge/(refund)	287,103	401,592	(43,333)	(51,170)
Adjustments in respect of current income tax of previous years	(3,097)	(1,986)	2,547	(1,727)
<b>Deferred income tax</b>				
Relating to origination and reversal of temporary differences	34,475	19,307	(3,960)	6,931
Income tax expense/(credit) reported in the income statement	<b>318,481</b>	<b>418,913</b>	<b>(44,746)</b>	<b>(45,966)</b>
<b>Statement of recognised income and expense</b>				
<b>Deferred income tax related to items charged or credited directly to equity</b>				
Net gain on revaluation of cash flow hedges	27,426	5,314	2,232	1,131
Unrealised loss on available-for-sale investments	24	(1,478)	–	–
Tax losses reversed in relation to 2001 simplification plan	–	481	–	481
Income tax expense reported in equity	<b>27,450</b>	<b>4,317</b>	<b>2,232</b>	<b>1,612</b>
A reconciliation between tax expense and the product of accounting profit before income tax multiplied by the group's applicable income tax rate is as follows:				
Accounting profit before income tax	1,104,968	1,467,055	681,382	922,894
At the group's statutory income tax rate of 30% (2006: 30%):	331,490	440,117	204,415	276,868
Adjustments in respect of current income tax of previous years	(3,097)	(1,986)	2,547	(1,727)
Non-assessable dividends	–	–	(251,045)	(302,325)
Non-assessable capital gains	(9,743)	–	–	–
Carried forward tax losses now recognised	(469)	(18,800)	(469)	(18,800)
Share of associated companies net profit after tax	(6,360)	(3,751)	–	–
Tax on undistributed associates profit	2,321	(20,654)	–	–
Non deductible accounting cost base	–	18,600	–	–
Other	4,339	5,387	(194)	18
Income tax expense/(credit) reported in the consolidated income statement	<b>318,481</b>	<b>418,913</b>	<b>(44,746)</b>	<b>(45,966)</b>
<b>Deferred income tax</b>				
Deferred income tax at 30 June relates to the following:				
<i>Balance sheet</i>				
Deferred tax assets				
Provisions	41,104	69,082	–	472
Coal rebates payable	31,103	54,492	–	–
Employee benefits	60,601	47,298	6,100	3,139
Accrued and other payables	44,458	27,327	2,695	(2)
Insurance liabilities	15,007	9,296	–	–
Doubtful debts	2,313	2,408	2,724	2,724
Amortisation of intangibles	1,629	–	–	–
Derivatives	1,630	663	–	–
Gross deferred income tax assets	<b>197,845</b>	<b>210,566</b>	<b>11,519</b>	<b>6,333</b>
Amount netted against deferred tax liabilities	<b>(197,845)</b>	<b>(210,566)</b>	<b>(3,939)</b>	<b>(481)</b>
Net deferred tax assets	–	–	<b>7,580</b>	<b>5,852</b>

# Notes to the financial statements

for the year ended 30 June 2007 – Wesfarmers Limited and its controlled entities

	CONSOLIDATED		PARENT	
	2007 \$000	2006 \$000	2007 \$000	2006 \$000
<b>5 INCOME TAX (continued)</b>				
<b>Deferred income tax (continued)</b>				
Deferred tax liabilities				
Accelerated depreciation for tax purposes	165,941	128,692	74	111
Mining assets recognised for accounting purposes	30,633	76,104	–	–
Derivatives	46,497	21,592	1,160	319
Accrued income and other	31,884	15,943	2,705	51
Unremitted earnings of associates	25,142	14,142	–	–
Warehouse stock	10,547	6,293	–	–
Intangible assets	25,108	–	–	–
Deferred acquisition costs	6,461	5,135	–	–
Gross deferred income tax liabilities	342,213	267,901	3,939	481
Amount netted against deferred tax assets	(197,845)	(210,566)	(3,939)	(481)
Net deferred tax liabilities	144,368	57,335	–	–
<i>Income statement</i>				
Provisions	27,978	(15)	472	–
Coal rebates payable	23,389	(11,947)	–	–
Employee benefits	(13,303)	3,540	(2,961)	6,397
Doubtful debts	95	448	–	438
Depreciation	(9,851)	23,899	(37)	394
Derivatives	(3,512)	19,120	(1,391)	(728)
Unremitted earnings of associates	11,000	(18,335)	–	–
Insurance liabilities	(5,711)	(1,143)	–	–
Accruals, stock and other	4,390	3,740	(43)	430
Deferred tax expense/(credit)	34,475	19,307	(3,960)	6,931
Unrecognised deferred tax asset in respect of capital losses in Australia – available indefinitely	76,906	80,219	–	–

## Tax consolidation

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

## Tax effect accounting by members of the tax consolidated group

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



# Notes to the financial statements

for the year ended 30 June 2007 – Wesfarmers Limited and its controlled entities

## 6 EARNINGS PER SHARE

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

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

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

	CONSOLIDATED		PARENT	
	2007 \$000	2006 \$000	2007 \$000	2006 \$000
Profit attributable to members of the parent	<b>786,338</b>	1,048,142		
	THOUSANDS	THOUSANDS		
Weighted average number of ordinary shares for basic earnings per share	<b>373,594</b>	368,946		
Effect of dilution – employee reserved shares	<b>4,279</b>	4,199		
Weighted average number of ordinary shares adjusted for the effect of dilution	<b>377,873</b>	373,145		
Earnings per share (cents per share)	CENTS	CENTS		
– basic for profit for the year attributable to ordinary equity holders of the parent	<b>210.5</b>	284.0		
– diluted for profit for the year attributable to ordinary equity holders of the parent	<b>208.1</b>	280.9		

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of these financial statements, apart from the normal conversion of employee reserved shares (treated as in-substance options) to unrestricted ordinary shares.

## 7 DIVIDENDS PAID AND PROPOSED

### Declared and paid during the year (fully franked at 30%)

	\$000	\$000	\$000	\$000
Final franked dividend for 2006: \$1.50 (2005: \$1.27)	<b>567,064</b>	480,114	<b>567,064</b>	480,114
Interim franked dividend for 2007: 85 cents (2006: 65 cents)	<b>322,168</b>	245,728	<b>322,168</b>	245,728
	<b>889,232</b>	725,842	<b>889,232</b>	725,842

### Proposed and not recognised as a liability (fully franked at 30%)

Final franked dividend for 2007: \$1.40 (2006: \$1.50)	<b>543,298</b>	567,064	<b>543,298</b>	567,064
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### Franking credit balance

Franking credits available for future years at 30% adjusted for debits and credits arising from the payment of income tax payable, and from recognised dividends receivable or payable

	<b>123,466</b>	171,434
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Impact on the franking account of dividends proposed before the financial report was issued but not recognised as a distribution to equity holders during the period

	<b>(232,842)</b>	(243,027)
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The company operates a Dividend Investment Plan which allows eligible shareholders to elect to invest dividends in new shares based on the average market price over a period of at least five days. The plan was temporarily suspended on 11 February 2003 and has been reinstated with effect from the payment of the interim dividend on 30 March 2007.

# Notes to the financial statements

for the year ended 30 June 2007 – Wesfarmers Limited and its controlled entities

	CONSOLIDATED		PARENT	
	2007 \$000	2006 \$000	2007 \$000	2006 \$000
<b>8 CASH AND CASH EQUIVALENTS</b>				
Cash on hand and in transit	49,035	32,800	6	6
Cash at bank and on deposit	90,581	57,246	16,689	33,286
Insurance broking accounts	78,933	–	–	–
	<b>218,549</b>	<b>90,046</b>	<b>16,695</b>	<b>33,292</b>
Cash at bank earns interest at floating rates based on daily bank deposit rates.				
Short-term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.				
<b>Reconciliation to Cash Flow Statement</b>				
For the purposes of the Cash Flow Statement, cash and cash equivalents comprise the following:				
Cash on hand and in transit	49,035	32,800	6	6
Cash at bank and on deposit	90,581	57,246	16,689	33,286
Insurance broking accounts	78,933	–	–	–
Bank overdraft	(2,965)	(6,931)	–	–
	<b>215,584</b>	<b>83,115</b>	<b>16,695</b>	<b>33,292</b>
<b>Reconciliation of net profit after tax to net cash flows from operations</b>				
Profit after tax from continuing operations	786,487	1,048,142	726,128	968,860
<i>Adjustments</i>				
Depreciation and amortisation	344,748	283,467	2,064	1,761
Writedown of inventory to net realisable value	16,789	28,707	–	–
Net gain on disposal of available-for-sale investments	–	(1,722)	–	–
Net gain on disposal of property, plant and equipment	(21,313)	(3,174)	(143)	(721)
Net gain on disposal of investment in associate	(6,183)	(234,859)	–	–
Share of associates' net profits	(83,062)	(56,898)	–	–
Dividends and distributions received from associates	23,733	44,238	–	–
Capitalised borrowing costs	(14,705)	(4,488)	–	–
Discount expense	9,395	14,334	–	–
Non-cash issue of shares	33,856	–	4,841	–
Other	(6,575)	7,087	3,154	(2,093)
<i>Changes in assets and liabilities</i>				
(Increase)/decrease in inventories	95,459	(1,538)	–	–
(Increase)/decrease in trade and other receivables	(36,904)	(21,981)	97,796	(2,071)
(Increase)/decrease in prepayments	21,179	4,454	–	611
(Increase)/decrease in pension assets	(3,558)	(5,262)	(3,558)	(5,262)
(Increase)/decrease in deferred taxes	27,289	(2,789)	(2,540)	10,379
(Decrease)/increase in current tax liability	(120,098)	114,482	59,316	(29,862)
(Decrease)/increase in trade and other payables	250,393	(52,750)	14,619	1,273
(Decrease)/increase in provisions	(16,335)	(23,841)	5,205	(3,252)
(Decrease)/increase in pension liability	–	(6,555)	–	(6,555)
Net cash from operating activities	<b>1,300,595</b>	<b>1,129,054</b>	<b>906,882</b>	<b>933,068</b>
<b>Non-cash financing and investing activities</b>				
Issue of share capital under dividend investment plan	106,161	–	106,161	–
Acquisition of rights to mine via coal rebates payable	45,728	106,781	–	–
Recognition of mineral exploration via mine rehabilitation provision	(86,835)	15,732	–	–

# Notes to the financial statements

for the year ended 30 June 2007 – Wesfarmers Limited and its controlled entities

	CONSOLIDATED		PARENT	
	2007 \$000	2006 \$000	2007 \$000	2006 \$000
<b>9 TRADE AND OTHER RECEIVABLES</b>				
<b>Current</b>				
Trade receivables	1,017,501	718,139	9,294	5,466
Allowance for doubtful debts	(7,954)	(7,282)	–	–
Reinsurance and other recoveries receivable	272,770	243,605	–	–
Finance advances and loans	87,262	91,005	–	–
Allowance for doubtful debts	(413)	(611)	–	–
Related party receivables:				
Subsidiaries	–	–	4,948,100	1,344,316
Allowance for doubtful debts	–	–	(9,081)	(9,081)
Associates	5,233	4,367	26	–
Other debtors	138,129	91,421	17,664	6
	<b>1,512,528</b>	<b>1,140,644</b>	<b>4,966,003</b>	<b>1,340,707</b>
<b>Non-current</b>				
Reinsurance and other recoveries receivable	99,065	103,564	–	–
Other debtors	13,422	9,998	8,835	5,262
	<b>112,487</b>	<b>113,562</b>	<b>8,835</b>	<b>5,262</b>
<b>10 INVENTORIES</b>				
Raw materials at cost	40,929	75,834	–	–
Raw materials at net realisable value	5,827	6,484	–	–
Work in progress at cost	31,029	17,254	–	–
Work in progress at net realisable value	9,495	11,883	–	–
Finished goods at cost	1,146,846	1,033,266	–	–
Finished goods at net realisable value	893	1,677	–	–
Total inventories at the lower of cost and net realisable value	<b>1,235,019</b>	<b>1,146,398</b>	<b>–</b>	<b>–</b>
<b>11 INVESTMENTS BACKING INSURANCE CONTRACTS</b>				
Term deposits	315,826	37,587	–	–
Bank bills	463,599	520,977	–	–
Shares and units	35,768	–	–	–
Other	1,008	491	–	–
	<b>816,201</b>	<b>559,055</b>	<b>–</b>	<b>–</b>

# Notes to the financial statements

for the year ended 30 June 2007 – Wesfarmers Limited and its controlled entities

	CONSOLIDATED		PARENT	
	2007 \$000	2006 \$000	2007 \$000	2006 \$000
<b>12 OTHER CURRENT ASSETS</b>				
Deferred acquisition costs	118,897	99,685	–	–
Prepayments	32,809	53,988	–	752
	<b>151,706</b>	<b>153,673</b>	<b>–</b>	<b>752</b>
Movements in deferred acquisition costs				
At beginning of year	99,685	99,296	–	–
Acquisition costs deferred	127,900	100,431	–	–
Costs charged to profit and loss	(121,204)	(95,686)	–	–
Other movements	12,516	(4,356)	–	–
	<b>118,897</b>	<b>99,685</b>	<b>–</b>	<b>–</b>
<b>13 AVAILABLE-FOR-SALE FINANCIAL ASSETS</b>				
Shares in listed companies at fair value (2006: at fair value)	2,047,980	4,935	–	–
Shares in unlisted companies at cost (2006: at fair value)	16,008	820	–	–
	<b>2,063,988</b>	<b>5,755</b>	<b>–</b>	<b>–</b>
Available-for-sale investments consist of investments in ordinary shares, and therefore have no fixed maturity date or coupon rate. The fair value of the unlisted available-for-sale investments has been estimated using appropriate valuation techniques. Included in the above amount are shares held in Coles Group Limited. Refer to note 30 for further information regarding this investment.				
<b>14 OTHER FINANCIAL ASSETS</b>				
Investments in controlled entities at cost	–	–	2,898,821	2,934,067
Loans to controlled entities at cost	–	–	–	43
	<b>–</b>	<b>–</b>	<b>2,898,821</b>	<b>2,934,110</b>
Refer to note 32 for listing of subsidiaries.				
<b>15 INVESTMENTS IN ASSOCIATES</b>				
Shares and units in associates	363,644	259,130	–	–
Loans to associates at cost	25,593	20,083	–	–
	<b>389,237</b>	<b>279,213</b>	<b>–</b>	<b>–</b>
<b>Fair value of listed investments in associates</b>				
Bunnings Warehouse Property Trust	157,659	136,501	–	–
Centrepoint Alliance Limited	17,858	–	–	–
<b>Share of associates' commitments</b>				
Capital commitments	14,655	42,294	–	–
Lease commitments	12,963	18,846	–	–

# Notes to the financial statements

for the year ended 30 June 2007 – Wesfarmers Limited and its controlled entities

## 15 INVESTMENTS IN ASSOCIATES (continued)

ASSOCIATE	PRINCIPAL ACTIVITY	OWNERSHIP		SHARE OF REVENUES	
		2007 %	2006 %	2007 \$000	2006 \$000
Air Liquide WA Pty Ltd	Industrial gases	40.0	40.0	19,860	19,440
Albany Woolstores Pty Ltd	Wool handling	35.0	35.0	–	–
Australian Railroad Group Pty Ltd	Rail freight	–	–	–	215,705
Bengalla Agricultural Company Pty Ltd	Dairy farming	40.0	40.0	31	32
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	13,509	12,479
Centrepoint Alliance Limited	Commercial finance	24.6	–	12,091	–
Gresham Partners Group Limited	Investment banking	50.0	50.0	32,219	25,632
Gresham Private Equity Fund 1	Private equity fund	50.6	50.6	2,092	13,420
Gresham Private Equity Fund No. 2	Private equity fund	67.4	67.4	2,733	1,581
Oversea & General Stevedoring Co Pty Limited	Investment	–	50.0	7	11
Queensland Nitrates Management Pty Ltd	Chemical manufacture	50.0	50.0	–	–
Queensland Nitrates Pty Ltd	Chemical manufacture	50.0	50.0	44,631	40,992
Retail Australia Holdings Pty Ltd	Investment	50.0	–	–	–
Unigas	LP gas distribution	50.0	50.0	89,910	85,174
Wespine Industries Pty Ltd	Pine sawmillers	50.0	50.0	43,435	39,678
				<b>260,518</b>	<b>454,144</b>

Whilst the consolidated entity's interest in the unitholders' funds of Gresham Private Equity Fund No. 1 and 2 amounts to 50.6% and 67.4% respectively, they are not controlled entities as the consolidated entity does not have the capacity to dominate decision-making in relation to their financial and operating policies. Such control requires a unitholders' resolution of 75% of votes pursuant to the Fund's trust deed.

Each of the above entities is incorporated in Australia and has a reporting date of 30 June with the exception of Gresham Partners Group Limited which has a reporting date of 30 September.

# Notes to the financial statements

for the year ended 30 June 2007 – Wesfarmers Limited and its controlled entities

SHARE OF PROFIT/(LOSS)		SHARE OF ASSETS		SHARE OF LIABILITIES		CARRYING AMOUNT	
2007 \$000	2006 \$000	2007 \$000	2006 \$000	2007 \$000	2006 \$000	2007 \$000	2006 \$000
<b>3,716</b>	4,008	<b>11,097</b>	11,483	<b>6,820</b>	6,821	<b>4,279</b>	4,661
–	–	<b>195</b>	670	–	294	<b>379</b>	376
–	11,344	–	–	–	–	–	–
–	(42)	<b>142</b>	563	<b>53</b>	816	<b>(255)</b>	(253)
–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–
<b>46,860</b>	17,021	<b>215,865</b>	155,351	<b>68,654</b>	51,415	<b>140,223</b>	103,936
<b>623</b>	–	<b>69,855</b>	–	<b>54,388</b>	–	<b>20,893</b>	–
<b>2,517</b>	2,266	<b>68,210</b>	41,925	<b>25,609</b>	13,702	<b>31,021</b>	28,223
<b>282</b>	11,717	<b>36,176</b>	36,287	<b>5,670</b>	242	<b>30,214</b>	30,625
<b>12,470</b>	(1,630)	<b>80,747</b>	36,028	<b>2,823</b>	838	<b>79,250</b>	35,190
<b>865</b>	865	–	493	–	5	–	6,000
–	–	–	–	–	–	–	–
<b>7,736</b>	3,088	<b>123,023</b>	121,787	<b>83,627</b>	89,659	<b>40,652</b>	32,128
–	–	–	–	–	–	–	–
<b>2,251</b>	1,431	<b>14,741</b>	15,401	<b>7,803</b>	7,417	<b>7,236</b>	7,984
<b>5,742</b>	6,830	<b>36,541</b>	32,955	<b>26,807</b>	22,695	<b>9,752</b>	10,260
<b>83,062</b>	56,898	<b>656,592</b>	452,943	<b>282,254</b>	193,904	<b>363,644</b>	259,130

# Notes to the financial statements

for the year ended 30 June 2007 – Wesfarmers Limited and its controlled entities

	CONSOLIDATED		PARENT	
	2007 \$000	2006 \$000	2007 \$000	2006 \$000
<b>16 PROPERTY, PLANT AND EQUIPMENT</b>				
<b>Freehold land</b>				
Cost	168,083	186,394	1,137	1,137
Net carrying amount	168,083	186,394	1,137	1,137
Net carrying amount at beginning of year	186,394	167,911	1,137	1,051
Additions	31,755	28,158	–	–
Transfers	5,686	(4,112)	–	104
Transfers to inventory	(70,638)	–	–	–
Disposals	(6,378)	(2,665)	–	(18)
Acquisitions of controlled entities	15,028	–	–	–
Impairment reversal	3,645	–	–	–
Exchange differences	2,591	(2,898)	–	–
Net carrying amount at end of year	168,083	186,394	1,137	1,137
<b>Buildings</b>				
Cost	281,536	378,698	3,263	3,132
Accumulated depreciation and impairment	(78,527)	(85,458)	(1,419)	(1,338)
Net carrying amount	203,009	293,240	1,844	1,794
Net carrying amount at beginning of year	293,240	228,471	1,794	1,823
Additions	62,018	98,631	131	–
Transfers	(41,840)	(15,987)	–	50
Transfers to inventory	(104,002)	–	–	–
Disposals	(8,647)	(1,068)	–	(33)
Acquisitions of controlled entities	7,972	–	–	–
Depreciation expense	(9,137)	(13,344)	(81)	(46)
Exchange differences	3,405	(3,463)	–	–
Net carrying amount at end of year	203,009	293,240	1,844	1,794
Assets in course of construction included above	18,977	76,113	–	–
<b>Leasehold improvements</b>				
Cost	86,609	89,991	1,864	1,864
Accumulated amortisation and impairment	(34,713)	(29,454)	(379)	(344)
Net carrying amount	51,896	60,537	1,485	1,520
Net carrying amount at beginning of year	60,537	95,546	1,520	1,555
Additions	4,649	41,457	–	–
Transfers	297	(71,514)	–	–
Rehabilitation provision asset reversal	(12,660)	–	–	–
Disposals	(4)	(156)	–	–
Acquisitions of controlled entities	3,693	–	–	–
Impairment charge	(25)	–	–	–
Amortisation expense	(4,718)	(4,668)	(35)	(35)
Exchange differences	127	(128)	–	–
Net carrying amount at end of year	51,896	60,537	1,485	1,520
Assets in course of construction included above	8,784	7,470	–	–

# Notes to the financial statements

for the year ended 30 June 2007 – Wesfarmers Limited and its controlled entities

	CONSOLIDATED		PARENT	
	2007 \$000	2006 \$000	2007 \$000	2006 \$000
<b>16 PROPERTY, PLANT AND EQUIPMENT (continued)</b>				
<b>Plant, vehicles and equipment</b>				
Cost	3,366,290	2,564,657	32,805	31,707
Accumulated depreciation and impairment	(1,568,417)	(1,299,474)	(12,673)	(11,408)
Net carrying amount	1,797,873	1,265,183	20,132	20,299
Net carrying amount at beginning of year	1,265,183	1,063,163	20,299	19,049
Additions	534,971	391,772	2,178	3,248
Transfers	44,451	(3,900)	(28)	–
Transfers to inventory	(8,005)	–	–	–
Rehabilitation provision asset reversal	(1,231)	–	–	–
Disposals	(12,434)	(9,401)	(369)	(319)
Acquisitions of controlled entities	155,880	190	–	–
Impairment charge	(2,127)	(4)	–	–
Depreciation expense	(184,068)	(171,610)	(1,948)	(1,679)
Exchange differences	5,253	(5,027)	–	–
Net carrying amount at end of year	1,797,873	1,265,183	20,132	20,299
Assets in course of construction included above	575,806	239,354	1,129	1,221
<b>Mineral lease and development costs</b>				
Cost	805,524	760,863	–	–
Accumulated amortisation and impairment	(310,491)	(169,981)	–	–
Net carrying amount	495,033	590,882	–	–
Net carrying amount at beginning of year	590,882	433,138	–	–
Additions	61,186	59,251	–	–
Transfers	52,736	176,654	–	–
Rehabilitation provision asset reversal	(72,944)	15,730	–	–
Disposals	–	(46)	–	–
Amortisation expense	(136,827)	(93,845)	–	–
Net carrying amount at end of year	495,033	590,882	–	–
Assets in course of construction included above	15,815	6,182	–	–
<b>Total</b>				
Cost	4,708,042	3,980,603	39,069	37,840
Accumulated depreciation and impairment	(1,992,148)	(1,584,367)	(14,471)	(13,090)
Net carrying amount	2,715,894	2,396,236	24,598	24,750



# Notes to the financial statements

for the year ended 30 June 2007 – Wesfarmers Limited and its controlled entities

	CONSOLIDATED	
	2007 \$000	2006 \$000
<b>17 INTANGIBLE ASSETS AND GOODWILL</b>		
<b>Trade names</b>		
Cost and carrying amount	9,459	–
Net carrying amount at beginning of year	–	–
Acquisitions of controlled entities	9,459	–
Net carrying amount at end of year	9,459	–
<b>Contractual and non-contractual relationships</b>		
Cost	126,370	–
Accumulated amortisation	(5,602)	–
Net carrying amount	120,768	–
Net carrying amount at beginning of year	–	–
Acquisitions of controlled entities	126,370	–
Amortisation for the year	(5,582)	–
Effect of movements in exchange rates	(20)	–
Net carrying amount at end of year	120,768	–
<b>Goodwill</b>		
Cost	2,570,910	1,473,231
Accumulated impairment	(3,019)	(3,019)
Net carrying amount	2,567,891	1,470,212
Net carrying amount at beginning of year	1,470,212	1,466,266
Additions	–	2,351
Acquisitions of controlled entities	1,097,679	1,598
Impairment charge	–	(3)
Net carrying amount at end of year	2,567,891	1,470,212
<b>Total</b>		
Total intangible assets and goodwill	2,698,118	1,470,212
<b>Allocation of goodwill to cash generating units</b>		
Carrying amount of goodwill		
Energy segment	312,205	–
Home Improvement segment	845,525	845,525
Industrial and Safety segment	449,821	439,055
Insurance segment	958,257	173,670
Other	2,083	11,962
	2,567,891	1,470,212

Amortisation is calculated on a straight line basis over the estimated useful life of the intangible asset which range from 1-51 years.

# Notes to the financial statements

for the year ended 30 June 2007 – Wesfarmers Limited and its controlled entities

## 17 INTANGIBLE ASSETS AND GOODWILL (continued)

### Key assumptions used in value in use calculations

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

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

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

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

	CONSOLIDATED	
	2007	2006
<b>Energy segment</b>		
Discount rate	9.6%	N/A
Growth rate beyond five year financial plan	5.5%	N/A
Cost inflation rate	3.0%	N/A
Cash flow multiple for calculation of terminal value	5	N/A
Other key assumptions include sales growth rate (based on historical information) and supply chain efficiencies (based on management expectations).		
<b>Home Improvement segment</b>		
Discount rate	9.6%	8.8%
Growth rate beyond five year financial plan	3.0%	3.0%
Cost inflation rate	3.0%	3.0%
Cash flow multiple for calculation of terminal value	5	5
Other key assumptions include retail sales and trade sales inflation rates (which are based on past experience) and the programme for store upgrades (which are based on management projections and are consistent with past experience).		
<b>Industrial and Safety segment</b>		
Discount rate	9.6%	8.8%
Growth rate beyond five year financial plan	3.0%	3.0%
Cost inflation rate	3.0%	3.0%
Cash flow multiple for calculation of terminal value	5	5
Other key assumptions include sales growth rates and stock turnover rates (which are based on past experience) and gross margin change (which are based on management projections and are consistent with past experience).		
<b>Insurance segment</b>		
Discount rate	9.6%	8.8%
Growth rate beyond five year financial plan	5.0%	3.0%
Cost inflation rate	3.0%	3.0%
Cash flow multiple for calculation of terminal value	5	5
Other key assumptions include gross written premium growth (which are based on industry projections and management strategies) and the gross and net earned loss ratios (which are based on long term historical claims experience).		

# Notes to the financial statements

for the year ended 30 June 2007 – Wesfarmers Limited and its controlled entities

	CONSOLIDATED		PARENT	
	2007 \$000	2006 \$000	2007 \$000	2006 \$000
<b>18 TRADE AND OTHER PAYABLES</b>				
<b>Current</b>				
Trade payables	1,254,152	752,908	26,845	5,817
Related party payables – subsidiaries	–	–	13,661	10,980
	<b>1,254,152</b>	<b>752,908</b>	<b>40,506</b>	<b>16,797</b>
<b>Non-current</b>				
Other creditors and accruals	78,517	4,352	–	–
<b>19 INTEREST-BEARING LOANS AND BORROWINGS</b>				
<b>Current</b>				
Secured				
Bank loans	44,985	5,706	–	–
Other loans	119	–	–	–
Unsecured				
Bank loans	3,506,137	92,587	3,305,702	–
Commercial paper	176,464	122,141	153,888	81,358
Bank bills	305,526	149,787	305,526	149,787
Bank overdrafts	2,965	6,931	–	–
Corporate bonds	399,800	90,000	399,800	90,000
Other loans	–	886	–	–
	<b>4,435,996</b>	<b>468,038</b>	<b>4,164,916</b>	<b>321,145</b>
<b>Non-current</b>				
Secured				
Other loans	202	–	–	–
Unsecured				
Bank bills	471,869	464,748	471,869	464,748
Corporate bonds	206,632	606,370	206,632	606,370
Other loans	7,940	3,757	–	–
	<b>686,643</b>	<b>1,074,875</b>	<b>678,501</b>	<b>1,071,118</b>

# Notes to the financial statements

for the year ended 30 June 2007 – Wesfarmers Limited and its controlled entities

## 19 INTEREST-BEARING LOANS AND BORROWINGS (continued)

### Secured loans

Specific and floating charges over the assets of Wesfarmers Kleenheat Elpiji Limited and OAMPS Insurance Brokers Ltd.

### Terms and conditions

Secured bank loans have a term of less than one year and an effective interest rate, as at 30 June 2007, of 10.6% per annum, payable semi-annually. The loans are denominated in Australian dollars (AUD) and Bangladeshi taka (BDT).

The balance of bank loans are denominated in AUD or New Zealand dollars (NZD). The AUD loans had an average rate at 30 June 2007 of 6.6% and an average term to maturity of less than one year. The NZD loan can be drawn on an overnight basis or for terms of up to six months and had an average effective interest rate as at 30 June 2007 of 8.1% per annum.

Commercial paper issued as at 30 June 2007 is denominated in AUD and NZD and is drawn under a number of standby facilities with maturities of up to eleven months and an average maturity of six months. The effective interest rates on the commercial paper on issue as at 30 June 2007 ranged from 6.4% to 7.9% with an average rate of 6.6% per annum.

Bank bills are drawn under facilities with maturities ranging from four months to two years and four months and an average term of fifteen months. The bills drawn as at 30 June 2007 had effective interest rates ranging from 5.5% to 6.8% and an average of 6.4% per annum.

Bank overdrafts had an average rate of 7.5% as at 30 June 2007.

Corporate bonds have maturities ranging from August 2007 to March 2009, with an average maturity of 1.1 years. Effective interest rates range from 6.7% to 7.0% with an average of 6.8% per annum.

	CONSOLIDATED		PARENT	
	2007 \$000	2006 \$000	2007 \$000	2006 \$000
<b>Financing facilities available</b>				
Total facilities				
Bank loans	4,523,061	110,801	4,170,000	–
Commercial paper	300,000	300,000	300,000	250,000
Bank bills	1,330,000	1,330,000	1,330,000	1,330,000
Bank overdrafts	9,069	13,189	–	5,000
	<b>6,162,130</b>	<b>1,753,990</b>	<b>5,800,000</b>	<b>1,585,000</b>
Facilities used at reporting date				
Bank loans	3,551,122	96,927	3,305,702	–
Commercial paper	177,674	122,900	155,000	82,000
Bank bills	781,000	618,000	781,000	618,000
Bank overdrafts	2,965	6,931	–	–
	<b>4,512,761</b>	<b>844,758</b>	<b>4,241,702</b>	<b>700,000</b>
Facilities unused at reporting date				
Bank loans	971,939	13,874	864,298	–
Commercial paper	122,326	177,100	145,000	168,000
Bank bills	549,000	712,000	549,000	712,000
Bank overdrafts	6,104	6,258	–	5,000
	<b>1,649,369</b>	<b>909,232</b>	<b>1,558,298</b>	<b>885,000</b>
Total facilities	<b>6,162,130</b>	<b>1,753,990</b>	<b>5,800,000</b>	<b>1,585,000</b>
Facilities used at reporting date	<b>4,512,761</b>	<b>844,758</b>	<b>4,241,702</b>	<b>700,000</b>
Facilities unused at reporting date	<b>1,649,369</b>	<b>909,232</b>	<b>1,558,298</b>	<b>885,000</b>

# Notes to the financial statements

for the year ended 30 June 2007 – Wesfarmers Limited and its controlled entities

	CONSOLIDATED		PARENT	
	2007 \$000	2006 \$000	2007 \$000	2006 \$000
<b>20 PROVISIONS</b>				
Employee benefits				
Current	150,813	124,849	10,337	5,882
Non-current	51,325	44,777	10,596	9,846
	<b>202,138</b>	<b>169,626</b>	<b>20,933</b>	<b>15,728</b>
Mine and plant rehabilitation				
Current	10,266	12,725	–	–
Non-current	107,144	197,340	–	–
	<b>117,410</b>	<b>210,065</b>	<b>–</b>	<b>–</b>
At beginning of year	210,065	198,244	–	–
Arising during year	15,076	22,226	–	–
Utilised	(9,721)	(10,947)	–	–
Unused amounts reversed	(104,627)	–	–	–
Acquisitions of controlled entities	5,193	–	–	–
Discount rate adjustment	1,393	542	–	–
Exchange differences	31	–	–	–
At end of year	<b>117,410</b>	<b>210,065</b>	<b>–</b>	<b>–</b>
Restructuring and make good				
Current	8,148	3,546	–	–
Non-current	11,454	16,661	–	–
	<b>19,602</b>	<b>20,207</b>	<b>–</b>	<b>–</b>
At beginning of year	20,207	31,980	–	–
Arising during year	3,680	2,337	–	–
Utilised	(4,278)	(11,746)	–	–
Discount rate adjustment	–	(2,410)	–	–
Exchange differences	(7)	46	–	–
At end of year	<b>19,602</b>	<b>20,207</b>	<b>–</b>	<b>–</b>
Total provisions				
Current	169,227	141,120	10,337	5,882
Non-current	169,923	258,778	10,596	9,846
	<b>339,150</b>	<b>399,898</b>	<b>20,933</b>	<b>15,728</b>

## Mine and plant rehabilitation

In accordance with mining lease agreements and Wesfarmers Group policies, obligations exist to remediate areas where mining activity has taken place. Work is ongoing at various sites and in some cases will extend over periods beyond 20 years. Provisions have generally been calculated assuming current technologies and using discount rates of approximately 6.4%. During the period, the valuation methodology was revised such that risks were incorporated in the cash flows rather than the discount rates to aid with comparability. At the same time, the risks incorporated in the estimated cash flows were reassessed giving rise to a reduction in the restoration provision of \$104.6 million which was recognised with a corresponding reduction of \$86.8 million to the carrying value of related assets. The remaining \$17.8 million is recognised as a current period adjustment to the restoration expense.

## Restructuring and make good

These provisions relate principally to the closure of retail outlets within the Home Improvement division. Provisions are carried in respect of stores where steps have been taken to implement the restructuring plan, including discussions with affected personnel. Provisions have been calculated using discount rates of between 9.0% and 10.0%.

# Notes to the financial statements

for the year ended 30 June 2007 – Wesfarmers Limited and its controlled entities

	CONSOLIDATED		PARENT	
	2007 \$000	2006 \$000	2007 \$000	2006 \$000
<b>21 INSURANCE LIABILITIES</b>				
Unearned insurance premiums				
Current	<b>689,721</b>	499,613	<b>11,224</b>	10,766
At beginning of year	<b>499,613</b>	524,062	<b>10,766</b>	8,930
Acquisition of companies	<b>130,806</b>	–	–	–
Deferral of premium on contracts written during year	<b>634,331</b>	499,613	<b>11,224</b>	10,766
Earning of premiums deferred in prior years	<b>(575,029)</b>	(524,062)	<b>(10,766)</b>	(8,930)
At end of year	<b>689,721</b>	499,613	<b>11,224</b>	10,766
Outstanding insurance claims				
Current	<b>449,082</b>	374,304	<b>15,180</b>	19,996
Non-current	<b>279,175</b>	225,417	–	–
	<b>728,257</b>	599,721	<b>15,180</b>	19,996
Total				
Current	<b>1,138,803</b>	873,917	<b>26,404</b>	30,762
Non-current	<b>279,175</b>	225,417	–	–
	<b>1,417,978</b>	1,099,334	<b>26,404</b>	30,762
<i>Outstanding insurance claims</i>				
Gross central estimate of outstanding claims liabilities	<b>717,818</b>	588,365		
Discount to present value	<b>(70,030)</b>	(51,737)		
Claim handling expenses	<b>27,998</b>	23,827		
Risk margin	<b>52,471</b>	39,266		
Liability for outstanding claims	<b>728,257</b>	599,721		

The overall risk margin is determined allowing for diversification between classes of business and the relative uncertainty of the outstanding claims estimate for each class. The assumptions regarding uncertainty for each class are applied to the net central estimates and the results are aggregated, allowing for diversification, in order to arrive at an overall net provision that is intended to provide a probability of sufficiency between 85% and 90%. The probability of adequacy at 30 June 2007 is approximately 85% which is within the Group's internal target range of 85% to 90%. The risk margin included in net outstanding claims is 14.5% of the central estimate (2006: 13.1%). The discount rate used is 6.5% (2006: 5.9%).

	CONSOLIDATED			
	GROSS \$000	REINSURANCE \$000	2007 NET \$000	2006 NET \$000
Movement in outstanding insurance claims				
At beginning of year	<b>599,721</b>	<b>(276,838)</b>	<b>322,883</b>	306,423
Incurred claims recognised in profit and loss	<b>799,697</b>	<b>(272,254)</b>	<b>527,443</b>	448,902
Net claim payments	<b>(793,497)</b>	<b>314,301</b>	<b>(479,196)</b>	(433,071)
Acquisition of companies	<b>109,898</b>	<b>(59,136)</b>	<b>50,762</b>	–
Other	<b>12,438</b>	–	<b>12,438</b>	629
At end of year	<b>728,257</b>	<b>(293,927)</b>	<b>434,330</b>	322,883

# Notes to the financial statements

for the year ended 30 June 2007 – Wesfarmers Limited and its controlled entities

## 21 INSURANCE LIABILITIES (continued)

### Claims development table

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

Ultimate claims cost estimate	CONSOLIDATED ACCIDENT YEAR					TOTAL \$000
	2003 \$000	2004 \$000	2005 \$000	2006 \$000	2007 \$000	
At end of accident year	44,669	52,586	66,251	77,697	87,387	328,590
One year later	44,377	50,956	65,093	67,544	–	227,970
Two years later	43,828	48,205	59,707	–	–	151,740
Three years later	43,150	45,378	–	–	–	88,528
Four years later	40,601	–	–	–	–	40,601
Current estimate of ultimate claims cost	40,601	45,378	59,707	67,544	87,387	300,617
Cumulative payments	(28,258)	(23,743)	(24,137)	(16,827)	(7,413)	(100,378)
Undiscounted central estimate	12,343	21,635	35,570	50,717	79,974	200,239
Discount to present value	(2,245)	(3,627)	(6,141)	(9,083)	(14,339)	(35,435)
Discounted central estimate	10,098	18,008	29,429	41,634	65,635	164,804
Claims handling expense	743	1,129	1,822	2,586	3,717	9,997
Risk margin	1,931	3,294	5,365	7,827	11,799	30,216
Net outstanding claims liabilities	12,772	22,431	36,616	52,047	81,151	205,017
Reinsurance recoveries on outstanding claims liabilities and other recoveries	17,865	15,792	19,982	14,470	15,136	83,245
Gross outstanding claims liabilities	30,637	38,223	56,598	66,517	96,287	288,262

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

## 22 OTHER LIABILITIES

	CONSOLIDATED		PARENT	
	2007 \$000	2006 \$000	2007 \$000	2006 \$000
Coal rebates payable				
Current	68,411	122,426	–	–
Non-current	19,711	41,418	–	–
	<b>88,122</b>	<b>163,844</b>	<b>–</b>	<b>–</b>
Deferred coal revenue				
Current	2,594	2,188	–	–
Non-current	12,959	15,609	–	–
	<b>15,553</b>	<b>17,797</b>	<b>–</b>	<b>–</b>
Other				
Current	1,450	–	–	–
	<b>1,450</b>	<b>–</b>	<b>–</b>	<b>–</b>
Total				
Current	72,455	124,614	–	–
Non-current	32,670	57,027	–	–
	<b>105,125</b>	<b>181,641</b>	<b>–</b>	<b>–</b>

# Notes to the financial statements

for the year ended 30 June 2007 – Wesfarmers Limited and its controlled entities

	CONSOLIDATED		PARENT	
	2007 \$000	2006 \$000	2007 \$000	2006 \$000
<b>23 CONTRIBUTED EQUITY</b>				
Ordinary shares	<b>2,255,958</b>	1,901,522	<b>2,249,697</b>	1,895,261
Employee reserved shares	<b>(111,182)</b>	(159,492)	<b>(107,675)</b>	(152,002)
	<b>2,144,776</b>	1,742,030	<b>2,142,022</b>	1,743,259

All ordinary shares are fully paid.

Shares issued to employees under the share loan plan referred to in note 36 (termed as “employee reserved shares”) are fully paid via a limited recourse loan to the employee from the parent and a subsidiary, and as such the arrangement is accounted for as in-substance options. Loans are repaid from dividends declared, capital returns and cash repayments. Once the loan is repaid in full the employee reserved shares are converted to unrestricted ordinary shares.

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

The Group reinstated a Dividend Investment Plan in January 2007 which was effective from 27 February 2007 and was applied to the interim dividend payable in respect of the period ended 31 December 2006. All holders of Wesfarmers ordinary shares with addresses in Australia or New Zealand are eligible to participate in the plan. The investment price is based on the average of the daily volume weighted average price of Wesfarmers shares sold on the Australian Securities Exchange calculated with reference to a period of not less than five consecutive trading days as determined by the directors.

	CONSOLIDATED		PARENT	
	THOUSANDS	\$000	THOUSANDS	\$000
<i>Movement in ordinary shares on issue</i>				
At 1 July 2005	378,042	1,901,164	378,042	1,895,261
Adjustment in relation to 2001 ownership simplification plan	–	358	–	–
At 30 June 2006	<b>378,042</b>	<b>1,901,522</b>	<b>378,042</b>	<b>1,895,261</b>
Issue of shares under long term incentive plans at \$34.57 per shares	<b>979</b>	<b>33,856</b>	<b>979</b>	<b>33,856</b>
Issue of shares under dividend investment plan at \$35.19 per share	<b>3,017</b>	<b>106,161</b>	<b>3,017</b>	<b>106,161</b>
Issue of shares under underwriting agreement at \$35.55 per share	<b>6,031</b>	<b>214,419</b>	<b>6,031</b>	<b>214,419</b>
At 30 June 2007	<b>388,069</b>	<b>2,255,958</b>	<b>388,069</b>	<b>2,249,697</b>
<i>Movement in employee reserved shares on issue</i>				
At 1 July 2005	10,494	215,354	10,132	204,512
Exercise of in-substance options	(2,270)	(36,496)	(2,206)	(35,022)
Dividends applied	–	(18,173)	–	(17,488)
Foreign currency translation adjustment	–	(1,193)	–	–
At 30 June 2006	<b>8,224</b>	<b>159,492</b>	<b>7,926</b>	<b>152,002</b>
Exercise of in-substance options	<b>(1,798)</b>	<b>(32,151)</b>	<b>(1,748)</b>	<b>(28,212)</b>
Dividends applied	–	(16,778)	–	(16,115)
Foreign currency translation adjustment	–	<b>619</b>	–	–
At 30 June 2007	<b>6,426</b>	<b>111,182</b>	<b>6,178</b>	<b>107,675</b>



# Notes to the financial statements

for the year ended 30 June 2007 – Wesfarmers Limited and its controlled entities

## 24 RESERVES

	CONSOLIDATED						PARENT		
	RESTRUCTURE TAX RESERVE \$000	CAPITAL RESERVE \$000	FOREIGN CURRENCY TRANSLATION RESERVE \$000	HEDGING RESERVE \$000	AVAILABLE FOR SALE RESERVE \$000	TOTAL \$000	RESTRUCTURE TAX RESERVE \$000	HEDGING RESERVE \$000	TOTAL \$000
Balance at 1 July 2005	110,943	24,117	5,706	77,109	11,066	228,941	110,943	(2,032)	108,911
Tax losses in relation to the 2001 simplification plan	(481)	–	–	–	–	(481)	(481)	–	(481)
Currency translation differences	–	–	(8,171)	–	–	(8,171)	–	–	–
Remeasurement of financial instruments – gross	–	–	–	21,326	(837)	20,489	–	3,771	3,771
Tax effect of remeasurement	–	–	–	(6,398)	251	(6,147)	–	(1,131)	(1,131)
Transfer to net profit – gross	–	–	–	(61,724)	(1,722)	(63,446)	–	196	196
Tax effect of transfer to net profit	–	–	–	18,517	517	19,034	–	(59)	(59)
Transfer to inventory and other assets – gross	–	–	–	(286)	–	(286)	–	–	–
Tax effect of transfer to inventory and other assets	–	–	–	86	–	86	–	–	–
Balance at 30 June 2006	110,462	24,117	(2,465)	48,630	9,275	190,019	110,462	745	111,207
Remeasurement of financial instruments – gross	–	–	–	91,422	(30,448)	60,974	–	7,440	7,440
Tax effect of remeasurement	–	–	–	(27,426)	(1,189)	(28,615)	–	(2,232)	(2,232)
Transfer to net profit – gross	–	–	–	(4,734)	–	(4,734)	–	(4,734)	(4,734)
Tax effect of transfer to net profit	–	–	–	1,420	–	1,420	–	1,420	1,420
Currency translation differences	–	–	8,061	–	–	8,061	–	–	–
Other	–	28	–	–	–	28	–	–	–
Balance at 30 June 2007	110,462	24,145	5,596	109,312	(22,362)	227,153	110,462	2,639	113,101

### Nature and purpose of reserves

#### Restructure tax reserve

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

#### Capital reserve

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

#### Hedging reserve

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

#### Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

#### Available for sale reserve

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

# Notes to the financial statements

for the year ended 30 June 2007 – Wesfarmers Limited and its controlled entities

	CONSOLIDATED		PARENT	
	2007 \$000	2006 \$000	2007 \$000	2006 \$000
<b>25 MINORITY INTERESTS</b>				
Interest in:				
Reserves	3	3	–	–
Retained earnings	198	49	–	–
	<b>201</b>	<b>52</b>	<b>–</b>	<b>–</b>

## 26 BUSINESS COMBINATIONS

### Acquisitions

During the period, Wesfarmers completed several acquisitions, the most significant being:

On 1 November 2006, Wesfarmers Limited, through its controlled entity Wesfarmers Insurance Investments Pty Ltd (“WIPL”), acquired, through an on-market cash offer, 90% of the voting shares of OAMPS Ltd (“OAMPS”), a publicly listed company and subsidiaries based in Australia operating in the insurance broking and underwriting business in Australia and the United Kingdom. At 90% the offer became unconditional and enabled WIPL to compulsorily acquire the remaining voting shares resulting in it holding an interest of 100% at balance date.

On 6 December 2006, Wesfarmers Limited, through its controlled entity WID Insurance Broking (NZ) Holdings Limited agreed to acquire 100% of the voting shares of Crombie Lockwood (NZ) Limited, an unlisted private company based in New Zealand which provides insurance broking services.

On 19 December 2006, Wesfarmers Limited, through its controlled entity J Blackwood & Son Limited, agreed to acquire 100% of the voting shares of Bullivants Pty Limited, an unlisted private company based in Australia which is a leading supplier of lifting, rigging and materials handling products and services.

On 1 February 2007, Wesfarmers Limited, through its controlled entity Wesfarmers Energy Limited acquired 100% of the voting shares of Linde Gas Pty Ltd (“Linde”), from Linde AG, a publicly listed German company. Linde was an Australia based private company that manufactures, wholesales and retails industrial and specialty gases and has subsequently been renamed Coregas Pty Ltd (“Coregas”). The total purchase consideration paid for the acquisition of Coregas was \$510.6 million.

Details of the fair value of the identifiable assets and liabilities of the business combinations and the cost of the acquisitions as at the date of acquisition are outlined below. Note, at 30 June 2007, the balances are provisional due to ongoing work required to finalise the valuations of certain assets and liabilities.

From the date of acquisition, OAMPS contributed \$24.8 million and the other acquisitions contributed \$11.4 million to the profit of the Group.

If the combinations had taken place at the beginning of the period, the revenue from continuing operations for the Group would have been \$9,963.6 million. It is not practicable to determine the profit of the Group had the combination taken place at 1 July 2006, as the fair value of identifiable assets and liabilities is not known at that date. Assuming that the same fair values detailed above applied at 1 July 2006, the profit for the Group would not have been materially different from that reported.

# Notes to the financial statements

for the year ended 30 June 2007 – Wesfarmers Limited and its controlled entities

## 26 BUSINESS COMBINATIONS

The goodwill of \$1,097.7m arising on consolidation includes goodwill attributable to the Coregas acquisition of \$302.3m and is attributable to various factors, including the ability to provide improved products and services to customers, the value of growth opportunities, inseparable intangible assets such as employee skills and experience and synergistic savings opportunities.

	OAMPS CONSOLIDATED		Other ACQUISITIONS		Group CONSOLIDATED	
	FAIR VALUE RECOGNISED ON ACQUISITION \$000	BOOK CARRYING VALUE \$000	FAIR VALUE RECOGNISED ON ACQUISITION \$000	BOOK CARRYING VALUE \$000	FAIR VALUE RECOGNISED ON ACQUISITION \$000	BOOK CARRYING VALUE \$000
<b>Assets</b>						
Cash and cash equivalents (including insurance broking accounts)	91,751	91,751	12,960	12,960	104,711	104,711
Trade and other receivables	249,972	249,574	62,844	63,044	312,816	312,618
Inventories	–	–	18,224	18,369	18,224	18,369
Financial assets	144,848	144,848	459	459	145,307	145,307
Insurance assets	44,706	35,316	–	–	44,706	35,316
Investment in associate	21,361	19,510	–	–	21,361	19,510
Property, plant and equipment	13,117	13,117	169,456	88,982	182,573	102,099
Intangible assets	62,965	6,791	72,864	3,524	135,829	10,315
Deferred tax assets	11,464	9,568	3,777	2,275	15,241	11,843
Assets of disposal group classified as held for sale	11,455	11,455	–	–	11,455	11,455
	651,639	581,930	340,584	189,613	992,223	771,543
<b>Liabilities</b>						
Trade and other payables	226,346	225,327	50,775	50,489	277,121	275,816
Interest bearing loans and borrowings	42,081	42,081	–	–	42,081	42,081
Income tax payable	1,608	1,612	2,843	2,843	4,451	4,455
Provisions	14,587	14,587	9,802	9,565	24,389	24,152
Insurance liabilities	237,217	237,217	–	–	237,217	237,217
Deferred tax liabilities	36,534	13,029	12,558	7,553	49,092	20,582
Liabilities of disposal group classified as held for sale	6,953	6,953	–	–	6,953	6,953
Other	3,087	–	499	499	3,586	499
	568,413	540,806	76,477	70,949	644,890	611,755
Net assets	83,226	41,124	264,107	118,664	347,333	159,788
Goodwill arising on acquisition	586,470		511,209		1,097,679	
	669,696		775,316		1,445,012	
<b>Cost of the combination</b>						
Cash paid to acquire shares	645,970		770,335		1,416,305	
Costs associated with the acquisition	23,726		4,981		28,707	
	669,696		775,316		1,445,012	
<b>Cash outflow on acquisition</b>						
Net cash acquired – operating accounts	7,485		1,919		9,404	
Net cash acquired – insurance broking accounts	85,580		11,041		96,621	
Cash paid	(669,696)		(775,316)		(1,445,012)	
Net cash outflow	(576,631)		(762,356)		(1,338,987)	

# Notes to the financial statements

for the year ended 30 June 2007 – Wesfarmers Limited and its controlled entities

## 27 FINANCIAL INSTRUMENTS

### Fair values

Set out below is a comparison by category of carrying amounts and fair values of all of the Group's financial instruments recognised in the financial statements. Market values have been used to determine the fair value of listed available-for-sale investments. The fair values of derivatives and borrowings have been calculated by discounting the expected future cash flows at prevailing interest rates. The fair values of loan notes and other financial assets have been calculated using market interest rates.

	NOTE	CARRYING AMOUNT		FAIR VALUE	
		2007 \$000	2006 \$000	2007 \$000	2006 \$000
<b>Consolidated</b>					
<b>Financial Assets</b>					
Cash	8	218,549	90,046	218,549	90,046
Trade receivables	9	1,009,547	710,857	1,009,547	710,857
Finance advances and loans	9	86,849	90,394	86,849	90,394
Other debtors	9	151,551	101,419	151,551	101,419
Insurance bank bills receivable	11	816,201	559,055	816,201	559,055
Available-for-sale investments	13	2,063,988	5,755	2,063,988	5,755
Loans to associates	15	25,593	20,083	25,593	20,083
Forward currency contracts		158,539	73,669	158,539	73,669
Interest rate swaps		3,983	1,762	3,983	1,762
<b>Financial Liabilities</b>					
Bank overdraft	19	2,965	6,931	2,965	6,931
Trade payables	18	1,254,152	752,908	1,254,152	752,908
Other creditors and accruals	18	78,517	4,352	78,517	4,352
Coal rebate payable	22	88,122	163,844	88,122	163,844
Interest bearing loans and borrowings:					
Secured bank loans	19	44,985	5,706	44,985	5,706
Unsecured bank loans	19	3,506,137	92,587	3,506,137	92,587
Commercial paper	19	176,464	122,141	176,464	122,141
Bank bills	19	777,395	614,535	777,395	614,535
Corporate bonds	19	606,432	696,370	606,432	696,370
Other loans	19	8,261	4,643	8,261	4,643
Forward currency contracts		7,415	5,142	7,415	5,142
Interest rate swaps		5,783	6,995	5,783	6,995
<b>Parent</b>					
<b>Financial Assets</b>					
Cash	8	16,695	33,292	16,695	33,292
Trade receivables	9	9,294	5,466	9,294	5,466
Other debtors	9	26,499	5,268	26,499	5,268
Loans to controlled entities	14	–	43	–	43
Forward currency contracts – external		158,538	73,669	158,538	73,669
Forward currency contracts – internal back-to-back		7,415	5,142	7,415	5,142
Interest rate swaps		3,880	1,762	3,880	1,762
<b>Financial Liabilities</b>					
Trade payables	18	26,845	5,817	26,845	5,817
Loans from subsidiaries	18	13,661	10,980	13,661	10,980
Interest bearing loans and borrowings:					
Unsecured bank loans	19	3,305,702	–	3,305,702	–
Commercial paper	19	153,888	81,358	153,888	81,358
Bank bills	19	777,395	614,535	777,395	614,535
Corporate bonds	19	606,432	696,370	606,432	696,370
Forward currency contracts – external		7,415	5,142	7,415	5,142
Forward currency contracts – internal back-to-back		158,538	73,669	158,538	73,667
Interest rate swaps		191	3,971	191	3,971

# Notes to the financial statements

for the year ended 30 June 2007 – Wesfarmers Limited and its controlled entities

## 27 FINANCIAL INSTRUMENTS (continued)

### Interest rate risk

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

Consolidated YEAR ENDED 30 JUNE 2007	< 1 YEAR	>1-<2 YEARS	>2-<3 YEARS	>3-<4 YEARS	>4-<5 YEARS	>5 YEARS	TOTAL	WEIGHTED AVERAGE EFFECTIVE INTEREST RATE
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	%
<b>Financial Assets</b>								
<i>Fixed rate</i>								
Finance advances and loans	86,849	–	–	–	–	–	86,849	17.71
Loans to associates	–	19,593	6,000	–	–	–	25,593	7.12
Weighted average effective interest rate	17.71	7.00	7.50	–	–	–	15.30	
<i>Floating rate</i>								
Insurance bank bills receivable	816,201	–	–	–	–	–	816,201	6.27
Cash assets	169,514	–	–	–	–	–	169,514	5.80
Weighted average effective interest rate	6.19	–	–	–	–	–	6.19	
<b>Financial Liabilities</b>								
<i>Fixed rate</i>								
Commercial paper	50,000	50,000	50,000	–	–	–	150,000	6.18
Bank bills	255,000	80,000	50,000	–	–	–	385,000	6.15
Weighted average effective interest rate	6.21	5.96	6.29	–	–	–	6.16	
<i>Floating rate</i>								
Bank overdraft	2,965	–	–	–	–	–	2,965	7.50
Secured bank loan	44,985	–	–	–	–	–	44,985	6.74
Unsecured bank loan	3,506,137	–	–	–	–	–	3,506,137	6.61
Commercial paper	26,464	–	–	–	–	–	26,464	7.71
Bank bills	50,526	50,083	291,786	–	–	–	392,395	6.55
Corporate bonds	399,800	206,632	–	–	–	–	606,432	6.80
Weighted average effective interest rate	6.64	6.76	6.52	–	–	–	6.64	
<b>YEAR ENDED 30 JUNE 2006</b>								
<b>Financial Assets</b>								
<i>Fixed rate</i>								
Finance advances and loans	90,394	–	–	–	–	–	90,394	18.74
Loans to associates	–	20,083	–	–	–	–	20,083	7.00
Weighted average effective interest rate	18.74	7.00	–	–	–	–	16.61	
<i>Floating rate</i>								
Insurance bank bills receivable	559,055	–	–	–	–	–	559,055	5.69
Cash assets	57,246	–	–	–	–	–	57,246	4.10
Weighted average effective interest rate	5.54	–	–	–	–	–	5.54	
<b>Financial Liabilities</b>								
<i>Fixed rate</i>								
Commercial paper	50,000	–	30,000	–	–	–	80,000	5.84
Bank bills	50,000	155,000	50,000	–	–	–	255,000	5.85
Weighted average effective interest rate	5.46	6.11	5.83	–	–	–	5.85	
<i>Floating rate</i>								
Bank overdraft	6,931	–	–	–	–	–	6,931	6.70
Secured bank loan	5,706	–	–	–	–	–	5,706	9.81
Unsecured bank loan	92,587	–	–	–	–	–	92,587	7.56
Commercial paper	42,141	–	–	–	–	–	42,141	7.48
Bank bills	99,787	–	259,748	–	–	–	359,535	5.95
Corporate bonds	90,000	399,774	206,596	–	–	–	696,370	6.34
Weighted average effective interest rate	6.72	6.36	6.15	–	–	–	6.38	

# Notes to the financial statements

for the year ended 30 June 2007 – Wesfarmers Limited and its controlled entities

## 27 FINANCIAL INSTRUMENTS (continued)

### Interest rate risk (continued)

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

<b>Parent</b>	<1 YEAR	>1-<2 YEARS	>2-<3 YEARS	>3-<4 YEARS	>4-<5 YEARS	>5 YEARS	TOTAL	WEIGHTED AVERAGE EFFECTIVE INTEREST RATE
YEAR ENDED 30 JUNE 2007	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	%
<b>Financial Assets</b>								
<i>Floating rate</i>								
Cash assets	16,689	–	–	–	–	–	16,689	6.03
Weighted average effective interest rate	6.03	–	–	–	–	–	6.03	
<b>Financial Liabilities</b>								
<i>Fixed rate</i>								
Commercial paper	50,000	50,000	50,000	–	–	–	150,000	6.18
Bank bills	255,000	80,000	50,000	–	–	–	385,000	6.15
Weighted average effective interest rate	6.21	5.96	6.29	–	–	–	6.16	
<i>Floating rate</i>								
Unsecured bank loan	3,305,702	–	–	–	–	–	3,305,702	6.53
Commercial paper	3,888	–	–	–	–	–	3,888	7.71
Bank bills	50,526	50,083	291,786	–	–	–	392,395	6.55
Corporate bonds	399,800	206,632	–	–	–	–	606,432	6.80
Weighted average effective interest rate	6.56	6.76	6.52	–	–	–	6.60	
<b>YEAR ENDED 30 JUNE 2006</b>								
<b>Financial Assets</b>								
<i>Floating rate</i>								
Cash assets	33,286	–	–	–	–	–	33,286	5.54
Weighted average effective interest rate	5.54	–	–	–	–	–	5.54	
<b>Financial Liabilities</b>								
<i>Fixed rate</i>								
Commercial paper	50,000	–	30,000	–	–	–	80,000	5.84
Bank bills	50,000	155,000	50,000	–	–	–	255,000	5.85
Weighted average effective interest rate	5.46	6.11	5.84	–	–	–	5.85	
<i>Floating rate</i>								
Commercial paper	1,358	–	–	–	–	–	1,358	5.88
Bank bills	99,787	–	259,748	–	–	–	359,535	5.95
Corporate bonds	90,000	399,774	206,596	–	–	–	696,370	6.34
Weighted average effective interest rate	6.04	6.36	6.15	–	–	–	6.21	

Interest on financial instruments classified as floating rate is repriced at intervals of less than one year. Interest on financial instruments classified as fixed rate is fixed until maturity of the instrument. Other financial instruments of the Group and Parent that are not included in the above tables are non-interest bearing and are therefore not subject to interest rate risk. Effective interest rate recognises the impact of interest rate swaps.

# Notes to the financial statements

for the year ended 30 June 2007 – Wesfarmers Limited and its controlled entities

## 27 FINANCIAL INSTRUMENTS (continued)

### Hedging activities

#### Foreign exchange contracts

##### Cash flow hedges

At 30 June 2007, the Group held forward exchange contracts designated as hedges of future sales or purchases for which the Group either has firm commitments in place or has identified highly probable forecast transactions. The objective of using the foreign currency contracts is to hedge the exposure to the variability in AUD cash flows attributable to movements in the forward exchange rate in relation to the committed or forecast sales or purchases.

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

Details of the outstanding contracts as at 30 June 2007 are as follows:

- (i) Forward contracts to hedge expected future sales –  
USD1,103.6 million @ AUD/USD = 0.7375 (2006: USD1,066.8 million @ AUD/USD = 0.7009)  
The forward sales contracts relate mainly to USD coal and LPG sales and have maturities out to March 2012.
- (ii) Forward contracts to hedge expected future purchases –  
Contracts for the sale of AUD  
USD116.3 million @ AUD/USD = 0.8184 (2006: USD81.5 million @ AUD/USD = 0.7434)  
GBP0.1 million @ AUD/GBP = 0.4184 (2006: GBP0.3 million @ AUD/GBP = 0.3994)  
EUR21.9 million @ AUD/EUR = 0.5858 (2006: EUR12.5 million @ AUD/EUR = 0.6086)  
DKK0.5 million @ AUD/DKK = 4.51 (2006: nil)  
Contracts for the sale of NZD  
USD3.2 million @ NZD/USD = 0.7271 (2006: NZD1.1 million @ AUD/NZD = 0.6248)

The forward purchases contracts relate mainly to capital expenditure or the purchase of inventory and have maturities out to February 2009.

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

#### Interest rate swap contracts

##### Cash flow hedges

As at 30 June 2007 the Group held AUD vanilla receive floating / pay fixed interest rate swaps with notional principal amounts totalling A\$535.0 million (2006: A\$335.0 million) and an average fixed rate of 6.2% (2006: 5.8%). In addition the Group held New Zealand vanilla receive floating / pay fixed interest rate swaps with notional principal amounts totalling NZ\$30.0 million (2006: NZ\$30.0 million) and an average fixed rate of 7.3% (2006: 7.3%).

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

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

##### Fair value hedges

As at 30 June 2007 the Group held two (2006: four) vanilla receive fixed / pay floating interest rate swaps with notional principal amounts totalling \$150.0 million (2006: A\$360.0 million), an average fixed rate of 6.2% (2006: 6.1%) and an average floating rate of 7.0% (2006: 6.3%).

These swaps are being used to hedge the exposure to changes in the fair value of its fixed rate corporate bonds (\$150.0 million @ 6.25% maturing August 2007) (2006: A\$150.0 million @ 6.2% maturing August 2007 and A\$210.0 million @ 6.0% maturing March 2009).

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

# Notes to the financial statements

for the year ended 30 June 2007 – Wesfarmers Limited and its controlled entities

## 28 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

### Financial instruments

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

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

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

### Cash flow interest rate risk

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

The Group's policy is to limit the Group's exposure to adverse fluctuations in interest rates which could erode Group profitability and adversely affect shareholder value. To manage the interest rate exposure, the Group generally enters into interest rate swaps, in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed upon notional principal amount. These swaps are designated to hedge interest costs associated with underlying debt obligations. At 30 June 2007, after taking into account the effect of interest rate swaps and natural hedges, approximately 50% of the Group's core borrowings (excluding bridge facilities for the Coles Group Limited acquisition) are exposed to movements in variable rates.

### Foreign currency risk

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

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

The Group's primary currency exposures arise from sales or purchases by an operating unit in currencies other than the unit's functional currency. Approximately 10% (2006: 13%) of the Group's sales are denominated in currencies other than the functional currency of the operating unit making the sale, whilst almost 9% (2006: 11%) of purchases are denominated in currencies other than the unit's functional currency.

The Group requires all its operating units hedge foreign exchange exposures for firm commitments relating to sales or purchases or when highly probable forecast transactions have been identified. Before hedging, the operating units are also required to take into account their competitive position. The hedging instrument must be in the same currency as the hedged item.

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

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

The Group aims to hedge approximately 45% to 55% (over 5 years) of its foreign currency sales for which firm commitments or highly probable forecast transactions existed at the balance sheet date. The current hedge contracts extend out to March 2012.

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

### Commodity price risk

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

### Credit risk

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

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

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

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



# Notes to the financial statements

for the year ended 30 June 2007 – Wesfarmers Limited and its controlled entities

## 28 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

### *Liquidity risk*

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans/bank accepted bills, commercial paper, corporate bonds and the overnight money market. At 30 June 2007, 87% of the Group's debt will mature in less than one year (2006: 33%). The large increase since 2006 has resulted from the drawdown of short term bridge facilities to fund recent acquisitions and to purchase Coles Group Limited shares. These facilities will be refinanced with longer term facilities over the coming year.

### **Insurance contracts**

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

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

The RMS and REMS identify the policies and procedures, processes and controls that comprise its risk management and control systems. These systems address all material risks, financial and non-financial, likely to be faced.

Key aspects of the processes established in the RMS to mitigate risks include:

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

### *Terms and conditions of insurance business*

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

### *Concentration of insurance risk*

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

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

# Notes to the financial statements

for the year ended 30 June 2007 – Wesfarmers Limited and its controlled entities

## 29 COMMITMENTS AND CONTINGENCIES

	CONSOLIDATED		PARENT	
	2007 \$000	2006 \$000	2007 \$000	2006 \$000
<b>Operating lease commitments – Group as lessee</b>				
The Group has entered into commercial leases on buildings, motor vehicles and office equipment. The lease terms and implicit interest rates vary significantly. For the lease of buildings the lease terms range from one year to 25 years and have various renewal or purchase options, termination rights and residual liability clauses.				
Future minimum rental payable under non-cancellable operating leases as at 30 June are as follows:				
Within one year	235,999	183,404	2,144	1,991
Greater than one year but not more than five years	602,743	514,175	4,104	5,790
More than five years	437,220	262,537	–	–
	<b>1,275,962</b>	<b>960,116</b>	<b>6,248</b>	<b>7,781</b>
<b>Other commitments</b>				
Commitments arising from contracts for capital expenditure contracted for at balance date but not provided for:				
Due within one year	129,213	115,563	–	–
Commitments arising from agreements to invest in Gresham Private Equity Fund No. 2 contracted for at balance date but not provided for:				
Due within one year	45,000	30,000	–	–
Greater than one year but not more than five years	32,066	78,644	–	–
Aggregate of commitments for Gresham Private Equity Fund No. 2 is the undrawn portion of Wesfarmers commitment of \$150.0 million. The amount of \$45.0 million is the estimate of what may be called during the year.				
<b>Commitments relating to jointly controlled operations</b>				
At 30 June 2007, the Group's share of the Bengalla joint venture commitments were \$8.2 million (2006: \$7.5 million) principally relating to the acquisition of plant and equipment all payable within the year. The Group's share of the Kwinana Sodium Cyanide joint venture capital commitments were \$0.7 million (2006: \$1.1 million) relating to the acquisition of plant and equipment all payable within the year.				
Share of capital commitments of joint venture operations:				
Due within one year	8,950	8,578	–	–
<b>Contingencies</b>				
The Group is undergoing a review by the Australian Taxation Office of the implementation of the taxation consolidation rules in relation to the generation of capital losses of approximately \$500.0 million in relation to the 2001 restructure of the Group. Since 2004 the Group has utilised for accounting purposes approximately \$370.0 million of these losses against taxable gains, resulting in an increase in the restructure tax reserve of \$110.0 million and a reduction in tax payable of an equivalent amount. Based on independent expert legal advice, management believes that the Group's treatment is correct and will prevail. Should this not be the case, an indeterminable amount of the capital losses previously recognised would be reversed resulting in the payment of income tax and a decrease in the restructure tax reserve. Such an amount could only be determined once the matter is resolved. The only impact on profit and loss of such an outcome would be the expensing of any penalties and interest which may arise.				
There has been no change in the accounting position of this contingency since the last balance date.				

# Notes to the financial statements

for the year ended 30 June 2007 – Wesfarmers Limited and its controlled entities

## 30 EVENTS AFTER THE BALANCE SHEET DATE

### Dividend

A fully franked dividend of 140 cents per share resulting in a dividend payment of \$543.3 million was declared on 16 August 2007 for payment on 19 November 2007 (the date of payment is subject to change). The dividend has not been provided for in the 30 June 2007 full-year financial statements. The net amount of dividend paid will depend upon the level of participation in the Dividend Investment Plan.

### Proposed Coles Group Limited (“Coles”) Acquisition

#### Initial Coles Stake

On 3 April 2007, Wesfarmers announced that it had acquired a relevant interest in 126.7 million Coles shares. These shares had been acquired at a total cost of \$2,077.1 million at an average purchase price of \$16.40 per share. On 29 June 2007, Coles' share price had fallen to \$16.12 giving rise to a total market value of Wesfarmers' shareholding in Coles of \$2,042.0 million. This reduction in market value from original cost has been recognised in the “Available-for-sale” investment Reserve in accordance with Group Accounting Policies.

As at 10 September 2007 the Coles share price has declined to \$14.46 and the market value of the Coles shares held by Wesfarmers is \$1,832.1 million representing a reduction of \$245.0 million from the original purchase price.

#### Wesfarmers' offer to acquire Coles

On 2 July 2007, the Coles Group Board unanimously recommended a scrip and cash offer from Wesfarmers to acquire Coles, subject to conditions outlined in the Scheme Implementation Agreement. On 5 September 2007, the Coles Group Board re-confirmed its unanimous recommendation following an enhanced Wesfarmers proposal.

The consideration under the enhanced proposal is subject to ASX consultation however, is expected to comprise:

- \$4.00 cash per Coles share;
- 0.14215 Wesfarmers Ordinary Shares per Coles share; plus
- 0.14215 Wesfarmers Price Protected Shares (WPPS) per Coles share.

Coles' shareholders will also be entitled to a final Coles dividend of 25 cents.

Subject to Coles' shareholder approval, the merged entity will be owned approximately 44% by Coles' shareholders and 56% by existing Wesfarmers shareholders.

Coles Group shareholders will be offered a mix and match facility. Shareholders will be able to maximise the Wesfarmers Ordinary Shares they receive (subject to off-setting elections for maximum cash), or maximise the cash they receive (subject to off-setting elections for maximum shares). WPPS will not be part of mix and match.

It is intended that the WPPS will:

- be listed on the ASX;
- pay a fully franked dividend of at least \$2 per WPPS, subject to the availability of sufficient retained earnings and franking credits;
- provide shareholders with additional Wesfarmers' Ordinary Shares in the event that the Wesfarmers' Ordinary Share price is less than \$45 at their reclassification date;
- be capable of being reclassified into Wesfarmers' Ordinary Shares at any time by the WPPS holder. In addition, the WPPS will be reclassified into Wesfarmers' Ordinary Shares if the 20 day volume weighted average price exceeds \$45.

The issuing of additional shares, where the Wesfarmers' Ordinary Share price is less than \$45 at the WPPS reclassification date, is at the sole discretion of the Wesfarmers Board. However, in the event that the additional shares are not issued, certain restrictions will be placed on Wesfarmers in respect of dividend declarations.

In the event that the maximum entitlement of additional shares was to be issued, WPPS shareholders would receive up to approximately 38.5 million shares.

The Coles' shareholder meeting to approve the Scheme is scheduled to be held in early November 2007. A Scheme of Arrangement Booklet is expected to be released in September by Coles to its shareholders.

# Notes to the financial statements

for the year ended 30 June 2007 – Wesfarmers Limited and its controlled entities

## 31 INTEREST IN JOINTLY CONTROLLED ASSETS

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

Joint venture	Principal activity	Interest	
		2007 %	2006 %
Sodium Cyanide JV	Sodium cyanide manufacture	75	75
Bengalla JV	Coal mining	40	40
Kwinana Industrial Gases JV	Nitrogen manufacture	40	40

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

	CONSOLIDATED		PARENT	
	2007 \$000	2006 \$000	2007 \$000	2006 \$000
<b>Assets</b>				
<b>Current Assets</b>				
Cash and cash equivalents	4,211	7,473	–	–
Trade and other receivables	36	3,421	–	–
Inventories	8,391	23,827	–	–
Other	2,115	2,455	–	–
<b>Total Current Assets</b>	<b>14,753</b>	<b>37,176</b>	<b>–</b>	<b>–</b>
<b>Non-current Assets</b>				
Property, plant and equipment	228,369	228,680	–	–
Other	15	15	–	–
<b>Total Non-current Assets</b>	<b>228,384</b>	<b>228,695</b>	<b>–</b>	<b>–</b>
<b>Total Assets</b>	<b>243,137</b>	<b>265,871</b>	<b>–</b>	<b>–</b>
Revenue	214,205	207,192	–	–
Costs of sales	(157,040)	(140,052)	–	–
Administrative expenses	(5,723)	(13,910)	–	–
Profit before income tax	51,442	53,230	–	–
Income tax expense	(15,433)	(15,969)	–	–
<b>Net Profit</b>	<b>36,009</b>	<b>37,261</b>	<b>–</b>	<b>–</b>

Refer to note 29 for detail on capital commitments. There were no impairment losses in the jointly controlled assets.

# Notes to the financial statements

for the year ended 30 June 2007 – Wesfarmers Limited and its controlled entities

## 32 SUBSIDIARIES

The consolidated financial statements include the financial statements of Wesfarmers Limited and the subsidiaries listed in the following table:

	Country of Incorporation	Functional currency	Beneficial interest	
			2007 %	2006 %
AALARA Risk Management Pty Ltd @	Australia	AUD	50	–
Aben Pty Ltd	Australia	AUD	100	100
A.C.N. 003 921 873 Pty Limited	Australia	AUD	100	100
A.C.N. 082 931 486 Pty Ltd	Australia	AUD	100	100
A.C.N. 112 719 918 Pty Ltd	Australia	AUD	100	100
All Transport Insurance Brokers Pty Ltd @	Australia	AUD	100	–
Australian Gold Reagents Pty Ltd	Australia	AUD	75	75
Australian International Insurance Limited @	Australia	AUD	100	–
Australian Taxi Insurance Underwriting Agency Pty Ltd @	Australia	AUD	100	–
Australian Underwriting Holdings Limited @ (formerly OAMPS Properties Pty Ltd)	Australia	AUD	100	–
Australian Underwriting Services Pty Ltd @	Australia	AUD	100	–
Bakop Pty Ltd @	Australia	AUD	100	–
BBC Hardware Limited +	Australia	AUD	100	100
BBC Hardware Properties (NSW) Pty Ltd	Australia	AUD	100	100
BBC Hardware Properties (Vic) Pty Ltd	Australia	AUD	100	100
Boylan & James Limited @ #	United Kingdom	GBP	100	–
Broking Insurance Group Pty Ltd @	Australia	AUD	100	–
Bullivants Lifting and Industrial Products Pty Limited @	Australia	AUD	100	–
Bullivants Pty Limited @ +	Australia	AUD	100	–
Bunnings (Northern Territory) Pty Ltd	Australia	AUD	100	100
Bunnings Group Limited +	Australia	AUD	100	100
Bunnings Limited ^	New Zealand	NZD	100	100
Bunnings Management Services Pty Ltd	Australia	AUD	100	100
Bunnings Manufacturing Pty Ltd	Australia	AUD	100	100
Bunnings Properties Pty Ltd	Australia	AUD	100	100
Bunnings Property Management Limited	Australia	AUD	100	100
Bunnings Pulp Mill Pty Ltd	Australia	AUD	100	100
Byrne Watkinson Kaye Insurance Brokers Pty Ltd @	Australia	AUD	100	–
C S Holdings Pty Limited +	Australia	AUD	100	100
Campbells Hardware & Timber Pty Limited	Australia	AUD	100	100
Car Rental Insurance Pty Ltd @	Australia	AUD	100	–
Car Rental Risk Management Services Pty Ltd @	Australia	AUD	100	–
Chambers Gallop McMahon Pty Ltd @	Australia	AUD	100	–
Chemical Holdings Kwinana Pty Ltd +	Australia	AUD	100	100
Comprehensive Holiday Insurance (Underwriting Agents) Pty Ltd @	Australia	AUD	100	–
Connect Liability Solutions Pty Ltd @	Australia	AUD	51	–
ConsortiumCo Pty Ltd @	Australia	AUD	100	–
Co-operative Wholesale Services Ltd	Australia	AUD	100	100
Coregas Pty Ltd @ + (formerly Linde Gas Pty Ltd)	Australia	AUD	100	–
Credit Management Pty Ltd	Australia	AUD	100	100
Crombie Lockwood (NZ) Limited @ ^	New Zealand	NZD	100	–
CSBP Ammonia Terminal Pty Ltd	Australia	AUD	100	100
CSBP Limited +	Australia	AUD	100	100
Cuming Smith and Company Limited +	Australia	AUD	100	100
Curragh Coal Sales Co Pty Ltd	Australia	AUD	100	100
Curragh Queensland Mining Pty Ltd	Australia	AUD	100	100
Dairy Properties Co-operative Limited	Australia	AUD	100	100
Dennison & Associates Pty Ltd @	Australia	AUD	100	–
Eastfarmers Pty Ltd	Australia	AUD	100	100

# Notes to the financial statements

for the year ended 30 June 2007 – Wesfarmers Limited and its controlled entities

## 32 SUBSIDIARIES (continued)

	Country of Incorporation	Functional currency	Beneficial interest	
			2007 %	2006 %
Edward Lumley & Sons (Vic) Proprietary Limited	Australia	AUD	100	100
ELH Services Limited #	United Kingdom	GBP	100	100
ELOL Limited #	United Kingdom	GBP	100	100
Energy Generation Pty Ltd +	Australia	AUD	100	100
Eskdale Holdings Pty Ltd @	Australia	AUD	100	–
FIF Investments Pty Limited	Australia	AUD	100	100
FPT (Australia) Pty Limited	Australia	AUD	100	100
Gault Armstrong Kemble Pty Ltd @	Australia	AUD	100	–
Gault Armstrong Pty Ltd @	Australia	AUD	100	–
Gault Armstrong SARL @	New Caledonia	XPF	100	–
GPML Pty Ltd	Australia	AUD	100	100
Hadrill Insurance Brokers Pty Ltd @	Australia	AUD	100	–
HouseWorks Co Pty Ltd +	Australia	AUD	100	100
Howard Smith Limited +	Australia	AUD	100	100
Howard Smith Nominees Pty Limited	Australia	AUD	100	100
Ibert Pty Limited	Australia	AUD	100	100
Idobent Pty Ltd @	Australia	AUD	100	–
J Blackwood & Son Limited +	Australia	AUD	100	100
J Blackwood & Son Steel & Metals Pty Ltd	Australia	AUD	100	100
Kleenheat Autogas Pty Ltd	Australia	AUD	100	100
Kleenheat Gas House Franchising Pty Ltd	Australia	AUD	100	100
Koukia Pty Limited	Australia	AUD	91	85
Kwinana Nitrogen Company Proprietary Limited	Australia	AUD	100	100
Lawvale Pty Ltd @ +	Australia	AUD	100	–
Liftco Pty Limited @ +	Australia	AUD	100	–
Loadsafe Systems Pty Ltd @	Australia	AUD	100	–
Loggia Pty Ltd +	Australia	AUD	100	100
Lumley Corporation Pty Limited	Australia	AUD	100	100
Lumley Finance (NZ) Limited ^	New Zealand	NZD	100	100
Lumley Finance Limited	Australia	AUD	100	100
Lumley General Insurance (NZ) Limited ^	New Zealand	NZD	100	100
Lumley General Insurance Limited	Australia	AUD	100	100
Lumley Insurance Group Limited	Australia	AUD	100	100
Lumley Investments (NZ) Limited ^	New Zealand	NZD	100	100
Lumley Life (NZ) Limited ^	New Zealand	NZD	100	100
Lumley Management Services Pty Limited	Australia	AUD	100	100
Lumley Risk Consultants Ltd	Australia	AUD	100	100
Lumley Securities Limited	Australia	AUD	100	100
Lumley Services (NZ) Limited ^	New Zealand	NZD	100	100
Lumley Superannuation Pty Limited	Australia	AUD	100	100
Lumley Technology (India) Pte Limited ^	India	INR	100	100
Lumley Technology Limited	Australia	AUD	100	100
Mandate Management Consultants Pty Ltd	Australia	AUD	100	100
Mawhinney Insurance Brokers Pty Ltd @	Australia	AUD	100	–
Millars (WA) Pty Ltd	Australia	AUD	100	100
Monument Finance Limited @ ^	New Zealand	NZD	100	–
Monument Insurance (NZ) Limited @ ^	New Zealand	NZD	100	–
Motion Industries Pty Ltd	Australia	AUD	100	100
NEGF Power Management Pty Ltd	Australia	AUD	100	100
NEGF Power Sales Pty Ltd	Australia	AUD	100	100
NZ Finance Holdings Pty Limited	New Zealand	NZD	100	100

# Notes to the financial statements

for the year ended 30 June 2007 – Wesfarmers Limited and its controlled entities

## 32 SUBSIDIARIES (continued)

	Country of Incorporation	Functional currency	Beneficial interest	
			2007 %	2006 %
OAMPS (HK) Limited @	Hong Kong	HKD	100	–
OAMPS (UK) Limited @	United Kingdom	GBP	100	–
OAMPS (UK) Underwriting Services Limited @	United Kingdom	GBP	100	–
OAMPS Corporate Risk Pty Ltd @	Australia	AUD	100	–
OAMPS Credit Limited @	Australia	AUD	100	–
OAMPS Financial Management Ltd @	Australia	AUD	100	–
OAMPS Insurance Brokers (NZ) Limited @ ^	New Zealand	NZD	100	–
OAMPS Insurance Brokers Ltd @	Australia	AUD	100	–
OAMPS Ltd @	Australia	AUD	100	–
OAMPS Special Risks Ltd @	United Kingdom	GBP	100	–
OAMPS Superannuation Ltd @	Australia	AUD	100	–
Offshore Market Placements Limited @ ^	New Zealand	NZD	100	–
Oil & Hazardous Environmental Services Limited @	United Kingdom	GBP	100	–
OMP Insurance Brokers Ltd @	Australia	AUD	100	–
Packaging House Limited ^	New Zealand	NZD	100	100
Pailou Pty Ltd +	Australia	AUD	100	100
Parks Insurance Pty Ltd @	Australia	AUD	100	100
Patrick Operations Pty Ltd	Australia	AUD	100	100
Petersen Bros Pty Ltd	Australia	AUD	100	100
Powertrain Pty Limited	Australia	AUD	100	100
Premier Power Sales Pty Ltd	Australia	AUD	100	100
Protector Alsafte Pty Ltd +	Australia	AUD	100	100
Q.R.L. Insurance Finance Agency Pty Ltd @	Australia	AUD	50	–
R & N Palmer Pty Ltd	Australia	AUD	100	100
Ronell Pty Ltd @	Australia	AUD	100	–
Royal Lifting and Industrial Products Pty Limited @	Australia	AUD	100	–
SBS Rural IAMA Pty Limited	Australia	AUD	100	100
Sellers (SA) Pty Ltd	Australia	AUD	100	100
Share Nominees Limited	Australia	AUD	100	100
Sotico Pty Ltd	Australia	AUD	100	100
Sportsure Pty Ltd @	Australia	AUD	50	–
StateWest Power Pty Ltd	Australia	AUD	100	100
The Builders Warehouse Group Pty Limited	Australia	AUD	100	100
The Franked Income Fund	Australia	AUD	100	100
Torque Underwriting Pty Ltd	Australia	AUD	100	100
TotalGuard Pty Limited @	Australia	AUD	100	–
Ucone Pty Ltd +	Australia	AUD	100	100
Universal Underwriting Agencies Pty Limited @	Australia	AUD	100	–
Universal Underwriting Services Pty Limited @	Australia	AUD	100	–
Valley Investments Pty Ltd +	Australia	AUD	100	100
Vigil Underwriting Agencies Pty Ltd @	Australia	AUD	100	–
Wesfarmers Agribusiness Limited +	Australia	AUD	100	100
Wesfarmers Bangladesh Gas Pty Ltd	Australia	AUD	100	100
Wesfarmers Bengalla Limited +	Australia	AUD	100	100
Wesfarmers Broking (NZ) Limited @ ^ (formerly WID Insurance Broking (NZ) Holdings Limited)	New Zealand	NZD	100	–
Wesfarmers Bunnings Limited +	Australia	AUD	100	100
Wesfarmers Char Pty Ltd	Australia	AUD	100	100
Wesfarmers Coal Limited (formerly Wesfarmers Queensland Coal Pty Ltd) +	Australia	AUD	100	100
Wesfarmers Curragh Pty Ltd +	Australia	AUD	100	100
Wesfarmers Energy (Gas Sales) Limited +	Australia	AUD	100	100

# Notes to the financial statements

for the year ended 30 June 2007 – Wesfarmers Limited and its controlled entities

## 32 SUBSIDIARIES (continued)

	Country of Incorporation	Functional currency	Beneficial interest	
			2007 %	2006 %
Wesfarmers Energy (Industrial Gas) Pty Ltd	Australia	AUD	100	100
Wesfarmers Energy Limited +	Australia	AUD	100	100
Wesfarmers Federation Insurance Limited	Australia	AUD	100	100
Wesfarmers Fertilizers Pty Ltd +	Australia	AUD	100	100
Wesfarmers Finance Pty Ltd	Australia	AUD	100	100
Wesfarmers Gas Limited +	Australia	AUD	100	100
Wesfarmers Holdings Pty Ltd	Australia	AUD	100	100
Wesfarmers Industrial & Safety Holdings NZ Limited ^	New Zealand	NZD	100	100
Wesfarmers Industrial & Safety NZ Limited ^	New Zealand	NZD	100	100
Wesfarmers Industrial & Safety Pty Ltd	Australia	AUD	100	100
Wesfarmers Insurance Investments Pty Ltd +	Australia	AUD	100	100
Wesfarmers Insurance Pty Ltd	Australia	AUD	100	100
Wesfarmers Investments Pty Ltd	Australia	AUD	100	100
Wesfarmers Kleenheat Elpiji Limited <	Bangladesh	BDT	58	58
Wesfarmers Kleenheat Gas Pty Ltd +	Australia	AUD	100	100
Wesfarmers LNG Pty Ltd	Australia	AUD	100	100
Wesfarmers LPG Pty Ltd +	Australia	AUD	100	100
Wesfarmers Premier Coal Limited +	Australia	AUD	100	100
Wesfarmers Private Equity Pty Ltd	Australia	AUD	100	100
Wesfarmers Provident Fund Pty Ltd	Australia	AUD	100	100
Wesfarmers Railroad Holdings Pty Ltd	Australia	AUD	100	100
Wesfarmers Resources Pty Ltd +	Australia	AUD	100	100
Wesfarmers Retail Holdings Pty Ltd @ (formerly Cobico Pty Ltd)	Australia	AUD	100	–
Wesfarmers Retail Pty Ltd +	Australia	AUD	100	100
Wesfarmers Risk Management Limited #	Bermuda	AUD	100	100
Wesfarmers Securities Management Pty Ltd	Australia	AUD	100	100
Wesfarmers Sugar Company Pty Ltd	Australia	AUD	100	100
Wesfarmers Superannuation Pty Ltd	Australia	AUD	100	100
Wesfarmers Transport Indonesia Pty Ltd	Australia	AUD	100	100
Wesfarmers Transport Limited +	Australia	AUD	100	100
Weskem Pty Ltd	Australia	AUD	100	100
West Africa Power Company Pty Ltd	Australia	AUD	100	100
Westralian Farmers Co-operative Limited	Australia	AUD	100	100
Westralian Farmers Superphosphates Limited +	Australia	AUD	100	100
WFCL Investments Pty Ltd	Australia	AUD	100	100
Wideland Insurance Brokers Pty Ltd @	Australia	AUD	100	–
Wideland Life Insurance Agency Pty Ltd @	Australia	AUD	100	–
Wyper Brothers Pty Limited	Australia	AUD	100	100
XCC (Retail) Pty Ltd	Australia	AUD	100	100
ZIB Credit Trust @	Australia	AUD	100	–
ZIB Group Holdings Company Limited @	Australia	AUD	100	–
ZIB Holdings Pty Limited @	Australia	AUD	100	–
ZIB Insurance Brokers Holding Limited @	Australia	AUD	100	–
ZIB Insurance Trust @	Australia	AUD	100	–

@ Entity acquired/incorporated during the year.

^ Audited by related practice of Ernst & Young Australia.

# Audited by firms of Ernst & Young International.

< Audited by other firms of accountants.

+ An ASIC approved deed of cross guarantee has been entered into by Wesfarmers Limited and these entities. Refer note 33 for further details. Wesfarmers Limited, incorporated in Australia, is the ultimate Australian parent entity and the ultimate parent of the Group.



# Notes to the financial statements

for the year ended 30 June 2007 – Wesfarmers Limited and its controlled entities

## 33 DEEDS OF CROSS GUARANTEE

Pursuant to Orders by the Australian Securities and Investments Commission (“ASIC”) dated 6 June 2007 the subsidiaries identified with a “+” in note 32 (with the exception of C S Holdings Pty Ltd, Loggia Pty Ltd and Pailou Pty Ltd, which are small proprietary companies) are relieved from the requirements of the Corporations Act 2001 relating to the preparation, audit and lodgement of their financial reports.

As a condition of these Orders, the subsidiaries identified with a “+” in note 32 and Wesfarmers Limited (“Closed Group”) entered into a Deed of Cross Guarantee on 27 June 2007 (“New Deed”). The effect of the New Deed is that each of the parties to the New Deed has guaranteed to pay any deficiency in the event of the winding up of any of the entities in the Closed Group.

On 27 June 2007 Revocation Deeds in respect of the Previous Deed (dated 27 June 2006) were lodged with ASIC. All of the companies that were parties to the Previous Deed will be released from their obligations under the Previous Deed provided that none of the parties to the Previous Deed is wound up and no winding up of any of those parties is commenced within six (6) months after the date of lodgement of the Revocation Deeds.

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

	New Deed	Previous Deed
	2007	2006
	\$000	\$000
<b>Consolidated Income Statement</b>		
Profit from continuing operations before income tax	990,408	1,346,637
Income tax expense	(254,736)	(269,710)
Net profit for the period	735,672	1,076,927
Retained earnings at the beginning of the year	1,002,266	710,592
Adjustment for companies transferred into/(out of) the Closed Group	220,017	(59,411)
Total available for appropriation	1,957,955	1,728,108
Dividends provided for or paid	(889,232)	(725,842)
Retained earnings at the end of the year	1,068,723	1,002,266

# Notes to the financial statements

for the year ended 30 June 2007 – Wesfarmers Limited and its controlled entities

## 33 DEEDS OF CROSS GUARANTEE (continued)

	New Deed	Previous Deed
	2007	2006
	\$000	\$000
<b>Consolidated Balance Sheet</b>		
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	61,853	83,574
Trade and other receivables	617,079	612,517
Inventories	1,106,261	1,035,708
Derivatives	89,942	43,776
<b>Total Current Assets</b>	<b>1,875,135</b>	<b>1,775,575</b>
<b>Non-current Assets</b>		
Receivables	64,763	9,996
Available-for-sale investments	3,823,255	2,990,084
Other financial assets	602	131,828
Investment in associates	105,421	109,464
Property, plant and equipment	2,483,249	2,186,167
Intangible assets and goodwill	1,648,653	1,302,535
Derivatives	72,476	31,655
<b>Total Non-current Assets</b>	<b>8,198,419</b>	<b>6,761,729</b>
<b>Total Assets</b>	<b>10,073,554</b>	<b>8,537,304</b>
<b>Liabilities</b>		
<b>Current Liabilities</b>		
Trade and other payables	1,042,662	606,920
Interest-bearing loans and borrowings	4,164,924	3,026,682
Income tax payable	96,031	235,864
Provisions	136,682	120,296
Derivatives	7,501	3,288
Insurance liabilities	14,736	19,996
Other	71,005	124,614
<b>Total Current Liabilities</b>	<b>5,533,541</b>	<b>4,137,660</b>
<b>Non-current Liabilities</b>		
Payables	4,308	3,323
Interest-bearing loans and borrowings	759,400	1,055,419
Deferred tax liabilities	113,687	91,765
Provisions	161,998	253,352
Derivatives	106	1,650
Other	32,670	57,027
<b>Total Non-current Liabilities</b>	<b>1,072,169</b>	<b>1,462,536</b>
<b>Total Liabilities</b>	<b>6,605,710</b>	<b>5,600,196</b>
<b>Net Assets</b>	<b>3,467,844</b>	<b>2,937,108</b>
<b>Equity</b>		
Contributed equity	2,255,958	1,901,522
Employee reserved shares	(107,672)	(152,002)
Retained earnings	1,068,723	1,002,266
Reserves	250,835	185,322
<b>Total Equity</b>	<b>3,467,844</b>	<b>2,937,108</b>

# Notes to the financial statements

for the year ended 30 June 2007 – Wesfarmers Limited and its controlled entities

## 34 RELATED PARTY TRANSACTIONS

	CONSOLIDATED		PARENT	
	2007 \$000	2006 \$000	2007 \$000	2006 \$000
<b>Subsidiaries</b>				
Dividends received	–	–	840,815	1,007,749
Insurance premiums received	–	–	11,769	13,068
Interest received	–	–	19,416	8,825
Operating lease rent received	–	–	595	581
Purchases of coal	–	–	74,113	93,882
Loans receivable	–	–	4,948,100	1,344,316
Provisions for doubtful debts	–	–	(9,081)	(9,081)
Loans payable	–	–	13,661	10,980
Current tax payable	–	–	97,898	322,604
Foreign exchange hedge receivables	–	–	7,415	5,142
Foreign exchange hedge payables	–	–	158,539	73,669
<b>Associates</b>				
Management fees received	6,370	8,922	727	2,551
Profit on sale of rental properties	6,517	1,552	–	–
Operating lease rent paid	58,997	57,736	116	241
Investment advisory fees paid	5,439	4,069	5,439	4,069
Loans receivable	25,593	20,083	–	–

### Subsidiaries

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

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

### Associates

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

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

Investment advisory services in the amount of \$5.4 million (2006: \$4.1 million) have been provided by Gresham Partners Group Limited to the consolidated entity.

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

Other minor loans have also been made to associates.

# Notes to the financial statements

for the year ended 30 June 2007 – Wesfarmers Limited and its controlled entities

## 35 AUDITOR'S REMUNERATION

	CONSOLIDATED		PARENT	
	2007 \$000	2006 \$000	2007 \$000	2006 \$000
The auditor of Wesfarmers Limited is Ernst & Young.				
<b>Amounts received or due and receivable by Ernst &amp; Young (Australia) for:</b>				
– an audit or review of the financial report of the entity and any other entity in the consolidated group	2,801	2,303	796	667
– other services in relation to the entity and any other entity in the consolidated group				
– tax compliance	237	399	182	387
– application for government tax concessions	15	154	–	111
– corporate finance advice	166	1,445	151	1,445
– assurance related	194	213	–	7
– special audits required by regulators	121	60	–	–
– other	7	65	–	65
	<b>3,541</b>	<b>4,639</b>	<b>1,129</b>	<b>2,682</b>
<b>Amounts received or due and receivable by related practices of Ernst &amp; Young (Australia) for:</b>				
– an audit or review of the financial report of subsidiaries	396	325	–	–
– other services in relation to the entity and any other entity in the consolidated group				
– tax compliance	156	54	–	–
– other	39	–	–	–
	<b>591</b>	<b>379</b>	<b>–</b>	<b>–</b>
<b>Amounts received or due and receivable by non Ernst &amp; Young audit firms for:</b>				
– an audit or review of the financial report of subsidiaries	162	2	–	–
	<b>162</b>	<b>2</b>	<b>–</b>	<b>–</b>
<b>Total</b>				
Total auditor's remuneration	<b>4,294</b>	<b>5,020</b>	<b>1,129</b>	<b>2,682</b>

# Notes to the financial statements

for the year ended 30 June 2007 – Wesfarmers Limited and its controlled entities

## 36 SHARE BASED PAYMENT PLANS

The Group operates three share based payment plans.

### Wesfarmers Employee Share Plan (“WESP”)

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

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

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

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

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

	2007		2006	
	NUMBER THOUSANDS	WAEP	NUMBER THOUSANDS	WAEP
Outstanding and exercisable at the beginning of the year	8,224	\$19.39	10,494	\$20.52
Exercised during the year	(1,798)	\$17.88	(2,270)	\$16.08
Outstanding and exercisable at the end of the year	6,426	\$17.30	8,224	\$19.39
Weighted average share price for Wesfarmers Limited		\$36.59		\$37.12
The average exercise prices (after reductions for dividends paid, returns of capital and voluntary payments) for in-substance options issued during the following years ended 30 June are:				
1997		–		\$0.58
1998		–		\$0.88
1999		–		\$1.20
2000		–		\$7.09
2001		\$13.65		\$20.55
2002		\$16.29		\$18.63
2003		\$20.14		\$21.23
2004		\$32.07		\$34.34

# Notes to the financial statements

for the year ended 30 June 2007 – Wesfarmers Limited and its controlled entities

## 36 SHARE BASED PAYMENT PLANS (continued)

### Wesfarmers Long Term Incentive Plan (“WLTIP”)

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

Shares may either be acquired on-market by the Group or issued by the parent. During the current financial year 473,841 shares were issued by the parent and 114,565 shares were acquired on market, with the cost being expensed over the vesting period from 1 July 2006 to 30 June 2007. The fair value of the services received from employees and of the equity instruments granted was determined by the total cost to the Group of the shares acquired on-market.

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

	CONSOLIDATED		PARENT	
	2007	2006	2007	2006
Shares acquired or issued under the plan	<b>588,406</b>	278,540	<b>253,007</b>	93,503
Cost per share	<b>\$34.57</b>	\$35.96	<b>\$34.57</b>	\$35.96

### Wesfarmers Employee Share Ownership Plan (“WESOP”)

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

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

Shares may either be acquired on-market by the Group or issued by the parent. During the current financial year shares were issued by the parent, with the cost being expensed over the vesting period from 1 July 2006 to 1 December 2006. The fair value of the services received from employees and of the equity instruments granted was determined by the total cost to the Group of the shares acquired on-market.

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

	CONSOLIDATED		PARENT	
	2007	2006	2007	2006
Shares issued under the plan	<b>505,639</b>	467,650	<b>1,624</b>	1,485
Cost per share	<b>\$34.57</b>	\$35.96	<b>\$34.57</b>	\$35.96

# Notes to the financial statements

for the year ended 30 June 2007 – Wesfarmers Limited and its controlled entities

## 37 PENSION PLAN

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

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

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

	CONSOLIDATED		PARENT	
	2007 \$000	2006 \$000	2007 \$000	2006 \$000
Changes in the present value of the defined benefit obligation are as follows:				
Opening defined benefit obligation	36,560	42,395	36,560	42,395
Interest cost	2,104	2,051	2,104	2,051
Current service cost	18	50	18	50
Benefits paid	(2,406)	(2,400)	(2,406)	(2,400)
Actuarial gains	(2,482)	(4,552)	(2,482)	(4,552)
Taxes paid on contributions	–	(984)	–	(984)
Closing defined benefit obligation	33,794	36,560	33,794	36,560
Changes in the fair value of the defined benefits portion of plan assets are as follows:				
Opening fair value of plan assets	41,822	35,840	41,822	35,840
Expected return	2,002	1,770	2,002	1,770
Contributions by employer	–	6,556	–	6,556
Taxes paid on contributions	–	(984)	–	(984)
Benefits paid	(2,406)	(2,400)	(2,406)	(2,400)
Actuarial gains	1,196	1,040	1,196	1,040
Closing fair value of plan assets	42,614	41,822	42,614	41,822
The fair value of fund assets do not include amounts relating to the Group's own financial instruments nor any property or other assets used by the Group.				
Net benefit surplus/expense recognised in profit and loss:				
Current service cost	18	50	18	50
Interest cost	2,104	2,051	2,104	2,051
Expected return on plan assets	(2,002)	(1,770)	(2,002)	(1,770)
Net actuarial gains	(3,678)	(5,592)	(3,678)	(5,592)
Defined benefit plan surplus	(3,558)	(5,261)	(3,558)	(5,261)
Benefit asset/liability recognised in the balance sheets:				
Defined benefit obligation	(33,794)	(36,560)	(33,794)	(36,560)
Fair value of plan assets	42,614	41,822	42,614	41,822
Net benefit asset	8,820	5,262	8,820	5,262
The principal actuarial assumptions used in determining pension benefit obligations are:				
Discount rate	6.20%	5.82%	6.20%	5.82%
Expected rate of return on fund assets	4.93%	4.93%	4.93%	4.93%
Expected pension increase rate	2.50%	2.50%	2.50%	2.50%

# Notes to the financial statements

for the year ended 30 June 2007 – Wesfarmers Limited and its controlled entities

## 38 DIRECTOR AND EXECUTIVE DISCLOSURES

### Details of Key Management Personnel during the years ended 30 June 2006 and 2007

#### *Non-executive directors*

C B Carter  
 P A Cross  
 T R Eastwood (Chairman)  
 R L Every  
 T J Flügge – resigned 3 July 2006  
 L A Giglia – resigned 1 November 2006  
 J P Graham  
 R D Lester  
 C Macek  
 D C White

#### *Executive directors*

R J B Goyder (Group Managing Director)  
 D A Robb – resigned 8 September 2006  
 G T Tilbrook (Finance Director)

#### *Executives*

T J Bowen, Managing Director, Industrial and Safety Division  
 R J Buckley, Chief Executive Officer, Insurance Division  
 T J Bult, Managing Director, Energy Division, appointed 11 September 2006  
 S A Butel, Managing Director, Coal Division, appointed 11 September 2006  
 P J C Davis, Chief Operating Officer, Home Improvement Division  
 J C Gillam, Managing Director, Home Improvement Division  
 K D Gordon, Managing Director, Chemicals and Fertilisers Division

### Compensation of Key Management Personnel

The company has applied the exemption in relation to compensation policy disclosures under Corporations Regulations 2001 (as amended) which exempt listed companies from providing compensation disclosures in relation to their Key Management Personnel in their annual financial reports normally required by Accounting Standard AASB 124 Related Party Disclosures. These remuneration disclosures are provided in sections one to seven of the Remuneration Report on pages 125 to 135 of this annual report designated as audited and forming part of the Directors' Report.

	CONSOLIDATED		PARENT	
	2007 \$000	2006 \$000	2007 \$000	2006 \$000
Short-term	11,374	9,810	11,374	9,810
Post employment	3,163	2,941	3,163	2,941
Termination benefits	2,943	786	2,943	786
Share-based payment	6,990	2,355	6,990	2,355
	<b>24,470</b>	<b>15,892</b>	<b>24,470</b>	<b>15,892</b>



# Notes to the financial statements

for the year ended 30 June 2007 – Wesfarmers Limited and its controlled entities

## 38 DIRECTOR AND EXECUTIVE DISCLOSURES (continued)

### Holdings of equity instruments in Wesfarmers Limited of Key Management Personnel

Shares – 30 June 2007	BALANCE AT BEGINNING OF YEAR	GRANTED AS REMUNERATION	ON EXERCISE OF IN- SUBSTANCE OPTIONS	NET CHANGE OTHER	BALANCE AT END OF YEAR
<b>Non-executive directors</b>					
C B Carter	4,000	–	–	96	4,096
P A Cross	3,500	–	–	–	3,500
T R Eastwood (Chairman)	878,694	–	–	–	878,694
R L Every	2,000	–	–	3,000	5,000
T J Flügge	4,417	–	–	–	4,417
L A Giglia	16,120	–	–	–	16,120
J P Graham	975,756	–	–	1,651	977,407
R D Lester	44,614	–	–	1,077	45,691
C Macek	5,250	–	–	2,250	7,500
D C White	45,829	–	–	(9)	45,820
<b>Executive directors</b>					
R J B Goyder	119,256	76,377	–	–	195,633
D A Robb	124,256	–	–	46	124,302
G T Tilbrook	153,224	38,188	–	–	191,412
<b>Executives</b>					
T J Bowen	–	17,358	–	–	17,358
R J Buckley	61,034	13,235	–	–	74,269
T J Bult	12,854	6,147	–	–	19,001
S A Butel	21,030	7,956	–	–	28,986
P J C Davis	75,730	9,474	–	–	85,204
J C Gillam	57,416	22,421	–	–	79,837
K D Gordon	24,502	11,066	–	–	35,568
	<b>2,629,482</b>	<b>202,222</b>	<b>–</b>	<b>8,111</b>	<b>2,839,815</b>
<b>Shares – 30 June 2006</b>					
<b>Non-executive directors</b>					
C B Carter	4,000	–	–	–	4,000
P A Cross	2,000	–	–	1,500	3,500
T R Eastwood (Chairman)	878,694	–	–	–	878,694
R L Every	2,000	–	–	–	2,000
T J Flügge	4,417	–	–	–	4,417
L A Giglia	16,120	–	–	–	16,120
J P Graham	975,756	–	–	–	975,756
R D Lester	44,614	–	–	–	44,614
C Macek	5,000	–	–	250	5,250
D C White	40,029	–	–	5,800	45,829
<b>Executive directors</b>					
M A Chaney +	245,663	–	200,000	(445,663)	–
R J B Goyder	106,048	13,208	–	–	119,256
D A Robb	113,940	10,316	–	–	124,256
G T Tilbrook	142,908	10,316	–	–	153,224
<b>Executives</b>					
R J Buckley	53,573	7,461	–	–	61,034
R M Denby +	300	–	30,068	(30,368)	–
J C Gillam	48,131	9,285	–	–	57,416
K D Gordon	18,271	6,231	–	–	24,502
	<b>2,701,464</b>	<b>56,817</b>	<b>230,068</b>	<b>(468,481)</b>	<b>2,519,868</b>

# Notes to the financial statements

for the year ended 30 June 2007 – Wesfarmers Limited and its controlled entities

## 38 DIRECTOR AND EXECUTIVE DISCLOSURES (continued)

### Holdings of equity instruments in Wesfarmers Limited of Key Management Personnel (continued)

	BALANCE AT BEGINNING OF YEAR	GRANTED AS REMUNERATION	ON EXERCISE OF OPTIONS	NET CHANGE OTHER	BALANCE AT END OF YEAR
<i>In-substance options under WESP – 30 June 2006</i>					
M A Chaney + (average exercise price \$12.89 per share)	200,000	–	(200,000)	–	–
R M Denby + (average exercise price \$30.30 per share)	30,068	–	(30,068)	–	–
	230,068	–	(230,068)	–	–

+ Ceased to be a Key Management Person during the year

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

### Other transactions and balances with Key Management Personnel

Refer to note 34 in relation to transactions with Gresham Partners Group Limited, of which J P Graham is a director.

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

# Directors' report

Wesfarmers Limited and its controlled entities

The information appearing on pages 2 to 52 forms part of the Directors' Report for the financial year ended 30 June 2007 and is to be read in conjunction with the following information:

## RESULTS AND DIVIDENDS

(YEAR ENDED 30 JUNE)	2007 \$000	2006 \$000
<b>Profit</b>		
Profit after tax from continuing operations	786,487	1,048,142*
Profit attributable to minority interests	149	—
Profit attributable to members of the parent entity	786,338	1,048,142*
*includes the profit on sale from the company's interest in the Australian Railroad Group as reported in the 2006 Annual Report.		
<b>Dividends</b>		
The following dividends have been paid by the company or declared by the directors since the commencement of the financial year ended 30 June 2007:		
a) out of the profits for the year ended 30 June 2006 on the fully-paid ordinary shares:		
(i) fully franked final dividend of 150 cents per share paid on 4 September 2006 (as disclosed in last year's directors' report)	567,064	
b) out of the profits for the year ended 30 June 2007 and retained earnings on the fully-paid ordinary shares:		
(i) fully franked interim dividend of 85 cents per share paid on 30 March 2007	322,168	
(ii) fully franked final dividend of 140 cents per share to be paid on 19 November 2007*	543,298	
*date of payment is subject to change		

## PRINCIPAL ACTIVITIES

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

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

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

## DIRECTORS

### Information on directors

The directors in office at the date of this report are:

- Trevor Eastwood (Chairman)
- Richard Goyder (Managing Director)
- Gene Tilbrook (Finance Director)
- Colin Carter
- Patricia Cross
- Robert (Bob) Every
- James Graham
- Anthony (Tony) Howarth
- Richard (Dick) Lester
- Charles Macek
- David White

All directors served on the Board for the period from 1 July 2006 to 30 June 2007, except for Anthony (Tony) Howarth who was appointed on 5 July 2007.

The qualifications, experience, special responsibilities and other details of the directors in office at the date of this report appear on pages 42 and 43 of the Annual Report.

The following directors resigned or retired during the year:

- Trevor Flügge resigned on 3 July 2006 (appointed in 1998);
- David Robb resigned on 8 September 2006 (appointed in 2004); and
- Lou Giglia retired on 1 November 2006 (appointed in 1984).

# Directors' report

Wesfarmers Limited and its controlled entities

## DIRECTORS (continued)

### Directors' shareholdings

Securities in the company or in a related body corporate in which directors had a relevant interest as at the date of this report are:

	BUNNINGS WAREHOUSE PROPERTY TRUST (UNITS)	WESFARMERS LIMITED (SHARES)
C B Carter		4,096
P A Cross		3,500
T R Eastwood		878,694
R L Every		5,000
R J B Goyder		189,278
J P Graham	9,334	968,547
A J Howarth		2,059
R D Lester		45,691
C Macek		7,000
G T Tilbrook	22,779	191,412
D C White		9,466

### Directors' meetings

The following table sets out the number of directors' meetings (including meetings of Board committees) held during the year ended 30 June 2007 and the number of meetings attended by each director:

	BOARD		AUDIT COMMITTEE		NOMINATION AND REMUNERATION COMMITTEE		NOMINATION COMMITTEE		COLES SCHEME DUE DILIGENCE COMMITTEE	
	(A)	(B)	(A)	(B)	(A)	(B)	(A)	(B)	(A)	(B)
<b>Current directors</b>										
T R Eastwood	18	18			1	1	3	3		
C B Carter	18	14			1	1	3	3		
P A Cross	18	18			1	1	3	3		
R L Every	18	17	8	8			3	3	2	2
R J B Goyder	18	18								
J P Graham	18	18	8	7			3	3		
R D Lester	18	17	8	7			3	3	2	2
C Macek	18	17	8	7			3	2	2	2
G T Tilbrook	18	18								
D C White	18	18	8	8			3	3		
<b>Previous directors</b>										
T J Flügge	—	—			—	—				
L A Giglia	6	5			1	1				
D A Robb	4	4								

#### Notes:

- (A) = number of meetings eligible to attend / (B) = number of meetings attended.
- The Nomination and Remuneration Committee operated for the period from 1 July to 31 December 2006. The Nomination Committee and the Remuneration Committee were established as separate board committees on 1 January 2007. The Remuneration Committee did not meet (as a separate committee) during the year.
- The Coles Scheme Due Diligence Committee was established as a special purpose board committee in May 2007.

# Directors' report

Wesfarmers Limited and its controlled entities

## INSURANCE AND INDEMNIFICATION OF DIRECTORS AND OFFICERS

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

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

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

In addition, the company's Constitution provides for the indemnity of officers of the company or its related bodies corporate from liability incurred by a person in that capacity unless the liability arises out of conduct involving a lack of good faith by the person.

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

## INDEMNIFICATION OF AUDITORS

The company's auditor is Ernst & Young.

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

During the financial year:

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

## DIRECTORS' AND OTHER OFFICERS' REMUNERATION

Discussion of the Board's policy for determining the nature and amount of remuneration for directors and senior executives and the relationship between such policy and company performance are contained in the Remuneration Report on pages 125 to 135 of this report.

## OPTIONS

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

## COMPANY SECRETARY

Linda Kenyon was appointed as Company Secretary of Wesfarmers Limited in April 2002.

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

## REVIEW OF RESULTS AND OPERATIONS

The operations of the consolidated entity during the financial year and the results of those operations are reviewed on pages 2 to 36 of this Annual Report and in the accompanying financial statements. This review includes information on the financial position of the consolidated entity and its business strategies and prospects for future financial years. In the opinion of the directors, disclosure of further material relating to those matters is likely to result in unreasonable prejudice to the interests of the company and the consolidated entity. That material has therefore been omitted from the review.

# Directors' report

Wesfarmers Limited and its controlled entities

## SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

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

REFER TO THESE PAGES OF THE ANNUAL REPORT

• revenue up from \$8.9 billion to \$9.8 billion	2 and 3
• profit for the year down from \$869.4 million (excluding profit on sale from the company's interest in the Australian Railroad Group as reported in the 2006 Annual Report) to \$786.3 million	2 and 3
• dividends per share paid or payable up from \$2.15 to \$2.25	2, 3 and 5
• total assets up from \$7.4 billion to \$12.1 billion	3
• shareholders' equity up from \$3.2 billion to \$3.5 billion	3
• net borrowings up from \$1.5 billion to \$4.9 billion	3
• on 3 April 2007, the company announced that it had acquired a relevant interest in 126.7 million shares in Coles Group Limited	5, 8 and 9

## SIGNIFICANT EVENTS AFTER BALANCE DATE

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

- on 2 July 2007, the Coles Board unanimously recommended a scrip and cash offer from Wesfarmers to acquire Coles (subject to conditions outlined in the Scheme Implementation Agreement);
- on 5 July 2007, Anthony (Tony) Howarth was appointed as a director;
- on 1 August 2007, the company announced that a subsidiary company, CSBP Limited, had entered into an agreement to acquire Australian Vinyls Corporation for \$137.7 million (completion occurred in September 2007);
- on 9 and 16 August 2007, the company announced further information on aspects of its proposal for Coles;
- on 16 August 2007, a fully franked final dividend of 140 cents per share resulting in a dividend payment of \$543.3 million was declared for payment on 19 November 2007 (the date of payment is subject to change); and
- on 5 September 2007, the company announced an enhanced proposal to be put to Coles shareholders.

## LIKELY DEVELOPMENTS AND EXPECTED RESULTS

Likely developments in, and expected results of, the operations of the consolidated entity in subsequent years are referred to elsewhere in this report, particularly on pages 7 to 36 of this Annual Report. In the opinion of the directors, disclosure of further material relating to those matters could result in unreasonable prejudice to the interests of the company and the consolidated entity. That material has therefore been omitted from the Directors' Report.

## NON-AUDIT SERVICES

Ernst & Young provided non-audit services to the consolidated entity during the year ended 30 June 2007 and received, or is due to receive, the following amounts for the provision of these services:

	\$'000s
Tax compliance	393
Application for government tax concessions	15
Corporate finance advice	166
Assurance related	194
Special audits required by regulators	121
Other	46
Total	935

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

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

- the non-audit services provided do not involve reviewing or auditing the auditor's own work or acting in a management or decision-making capacity for the company;
- all non-audit services were subject to the corporate governance procedures and policies adopted by the company and have been reviewed by the Audit Committee to ensure they do not affect the integrity and objectivity of the auditor; and
- there is no reason to question the veracity of the auditor's independence declaration (a copy of which has been reproduced on page 124).

# Directors' report

Wesfarmers Limited and its controlled entities

## AUDITOR INDEPENDENCE

The directors received the following declaration from Ernst & Young:



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

■ Tel 61 8 9429 2222  
Fax 61 8 9429 2436

GPO Box M939  
Perth WA 6843

### Auditor's Independence Declaration to the Directors of Wesfarmers Limited

In relation to our audit of the financial report of Wesfarmers Limited for the financial year ended 30 June 2007, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.

Ernst & Young

S C Van Gorp  
Partner  
Perth, 11 September 2007

Liability limited by a scheme approved under  
Professional Standards Legislation.

## ENVIRONMENTAL REGULATIONS AND PERFORMANCE

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

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

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

## PROCEEDINGS ON BEHALF OF THE COMPANY

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

## CORPORATE GOVERNANCE

In recognising the need for high standards of corporate behaviour and accountability, the directors of Wesfarmers Limited support and have adhered to the ASX Corporate Governance Council's Principles of Good Corporate Governance and Best Practice Recommendations. The company's corporate governance statement is on pages 44 to 52 of this Annual Report.

## CORPORATE INFORMATION

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

## ROUNDING

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

# Directors' report

Wesfarmers Limited and its controlled entities

## REMUNERATION REPORT

This report provides details of Wesfarmers' policy for determining the remuneration of key management personnel; the relationship between the policy and the performance of the company during the financial year; and the remuneration of Board members and senior executives. This information is in accordance with the requirements of the *Corporations Act 2001* and its Regulations. It also provides remuneration disclosures required by paragraphs Aus 25.4 to 25.7.2 of AASB 124 *Related Party Disclosures*, which have been transferred to the Remuneration Report in accordance with Corporations Regulation 2M.6.04.

It includes information on the remuneration for the 2006/07 financial year of:

- the non-executive directors of Wesfarmers Limited ("Non-executive Directors") being:
  - C B Carter
  - P A Cross
  - T R Eastwood
  - R L Every
  - T J Flugge (resigned 3 July 2006)
  - L A Giglia (resigned 1 November 2006)
  - J P Graham
  - R D Lester
  - C Macek
  - D C White
- the executive directors of Wesfarmers Limited ("Executive Directors") being:
  - R J B Goyder (group Managing Director)
  - D A Robb (resigned 8 September 2006)
  - G T Tilbrook (Finance Director)
- the other key management personnel which include the five highest paid executives of the Wesfarmers group and the company during 2006/07, ("Senior Executives"), being:
  - T J Bowen (Managing Director, Industrial & Safety Division)
  - R J Buckley (Chief Executive Officer, Insurance Division)
  - T J Bult (Managing Director, Energy Division, appointed 11 September 2006)
  - S A Butel (Managing Director, Coal Division, appointed 11 September 2006)
  - P J C Davis (Chief Operating Officer, Home Improvement Division)
  - J C Gillam (Managing Director, Home Improvement Division)
  - K D Gordon (Managing Director, Chemicals and Fertilisers Division)
- other senior managers who, during 2006/07:
  - made, or participated in making, decisions that affected the whole, or a substantial part, of the business of the Wesfarmers group; or
  - who had the capacity to significantly affect the Wesfarmers group's financial standing.

### 1. Remuneration policies

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

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

In the opinion of the directors, the company's remuneration policies have contributed to the company's success in creating shareholder value in 2006/07 and the previous four financial years, as demonstrated by the following table which tracks key measures of earnings and total shareholder returns.

	2007 AIFRS	2006 AIFRS	2005 AIFRS	2005 AGAAP	2004 AGAAP	2003 AGAAP
Dividends per share (cents)	225	215	180	180	140	127
Closing share price (\$ as at 30 June)	45.73	35.33	40.01	40.01	29.40	25.30
Earnings per share (cents)	210.5	235.6+	192.0	187.8	174.2*	150.8#
Net profit after tax (\$m)	786.3	869+	702	618	569*	482#
Return on average ordinary shareholders' funds (%)	25.1	31.1+	25.4	19.6	16.2*	13.3#
Capital returns per share (cents)	–	–	100	100	250	–

+ excluding the sale of ARG \* excluding the sale of Landmark # excluding the sale of Girrah

AIFRS AND AGAAP – Information is presented for 2005, 2006 and 2007 in accordance with Australian Equivalents to International Financial Reporting Standards (AIFRS) which were effective from 1 July 2005. Information for 2005 and prior years is presented in accordance with Australian Generally Accepted Accounting Principles (AGAAP) which were effective at that time.



# Directors' report

Wesfarmers Limited and its controlled entities

## 2. Remuneration Committee

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

## 3. Non-executive Directors

The company's Non-executive Directors receive fees (including statutory superannuation) for their services plus the reimbursement of reasonable expenses. The fees paid to Non-executive Directors reflect the demands on and responsibilities of those directors. The advice of independent remuneration consultants is taken to ensure that the directors' fees are in line with market levels. Non-executive Directors are not eligible to participate in any incentive plan and do not receive any retirement benefits, other than statutory and voluntary superannuation. Shareholder approval was obtained at the 2006 annual general meeting in relation to a salary sacrifice share plan for Non-executive Directors. The plan enables participating directors to forego a portion of their fees to acquire shares in the company. The shares are issued or purchased at market price and are subject to forfeiture and trading restrictions in accordance with the plan rules. The plan supports increased equity participation in the company by the Non-executive Directors. Robert Every, Charles Macek and Patricia Cross have elected to participate in the 2006 Non-executive Director Share Plan (which runs from 1 December 2006 to 30 November 2007). During the 2006/07 financial year, no share allocations were made under the Non-executive Director Share Plan.

The Board aims to set the aggregate remuneration at a level which provides the ability for Wesfarmers to attract and retain highly competent directors. The aggregate remuneration level is determined from time to time by shareholders in general meeting, in accordance with the company's Constitution. The aggregate amount is then apportioned between the directors as agreed, taking into account market comparisons provided by independent remuneration consultants. An aggregate remuneration limit for Non-executive Directors of Wesfarmers Limited of \$2.25m was approved by shareholders at the annual general meeting in November 2004 of which \$1.64m was committed at 30 June 2007.

The remuneration of the Non-executive Directors was increased effective 1 January 2007. The table below summarises the current and previous Board and committee fees.

	2007	2006
<b>Main Board:</b>		
Chair	429,300	408,900
Member	143,100	136,300
<b>Audit committee:</b>		
Chair	50,000	40,000
Member	30,000	20,000
<b>Remuneration Committee:</b>		
Chair	20,000	20,000
Member	10,000	10,000

Members of the Nomination Committee do not receive additional remuneration. Actual remuneration of Non-executive Directors for the period ended 30 June 2007 is detailed in Table 1 on pages 132 to 135.

## 4. Remuneration of Executive Directors and Senior Executives

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

The table below summarises the components of executive remuneration.

Fixed Remuneration	Fixed Annual Remuneration (FAR)	Cash and benefits	Set with reference to role, market and experience				
	Benefits deducted from FAR (eg superannuation, motor vehicle)		Financial measures			Non-financial measures	
Variable Remuneration	Wesfarmers Senior Executive Incentive Plan (WSEIP)	Short term – cash	Group net profit after tax	Divisional earnings before interest and tax	Divisional return on capital	Safety measures	Discretionary
	Wesfarmers Long Term Incentive Plan (WLTIP)	Long term – shares	Share Awards based on executive seniority and performance, if company Return on Equity (ROE) performance hurdle has been met.				

# Directors' report

Wesfarmers Limited and its controlled entities

## 4. Remuneration of Executive Directors and Senior Executives (continued)

### 4.1 Fixed Remuneration

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

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

This policy applied for both the current and prior year.

### 4.2 Variable Remuneration

#### 4.2.1 Annual incentive

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

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

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

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

This policy applied for both the current and prior year.

For the 2007 financial year incentives entitlements were paid to Executive Directors and Senior Executives in September 2007. The percentage of the total incentive paid and the percentage of the incentive forfeited by Executive Directors and Senior Executives is as follows:

	ACTUAL INCENTIVE PAYMENT \$ PAID	ACTUAL INCENTIVE PAYMENT AS A % OF MAXIMUM	
		% PAID	% FORFEITED
T J Bowen	251,456	65.5	34.5
R J Buckley	146,315	37.5	62.5
T J Bult	223,168	87.5	12.5
S A Butel	235,675	71.4	28.6
P J C Davis	388,725	88.8	11.2
J C Gillam	446,335	87.5	12.5
K D Gordon	299,805	90.8	9.2
G T Tilbrook	555,200	92.5	7.5

# Directors' report

Wesfarmers Limited and its controlled entities

## 4. Remuneration of Executive Directors and Senior Executives (continued)

### 4.2 Variable Remuneration (continued)

#### 4.2.2 Long term incentive

The Remuneration Committee strives to seek an appropriate balance between risk and reward in setting long term incentive arrangements. The primary objective is to ensure that long term incentives appropriately align reward with company and individual performance, while maintaining a sensible level of remuneration within the markets in which Wesfarmers competes for senior talent. Executives are rewarded based on criteria over which they have some control. Therefore the measures used to determine long term incentive awards vary between the Senior Executives and Executive Directors, as described at 4.2.2.1 and 4.2.2.2 below.

Long term incentive awards are provided through the Wesfarmers Long Term Incentive Plan ("WLTIP") under which participants receive shares in the company. The shares are awarded on a tax-deferred basis, at market price, with a three-year trading lock on each award whilst employed by the company. Participants forfeit their award if they leave the company prior to the end of the financial year in which the award is made, except in the case of redundancy, ill health, death or normal retirement. The company's share trading policy prohibits Senior Executives and Executive Directors from entering into transactions or arrangements which transfer the risk of any fluctuation in the value of shares obtained under the Wesfarmers long term incentive plan during the period in which the shares are subject to a trading lock.

##### 4.2.2.1 Senior Executives

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

An annual WLTIP award may be provided if a ROE hurdle is achieved. The hurdle in 2006/07 was set at the 50th percentile of a comparative group of companies' five-year rolling-average performance as explained below. The award provided to executives at this level is 50 per cent of their FAR, an amount which is in line with the median level of long term incentives paid in comparative companies. The group Managing Director has the discretion to provide a higher award (up to 100 per cent of FAR) in extraordinary circumstances, to recognise outstanding individual performance or to address critical retention issues. Such awards are provided within parameters established by the Remuneration Committee.

The comparative group used is the 50 largest companies by market capitalisation in the Standard & Poor's ASX 100 Index, as at 30 June. Incentive awards are determined after the preparation of the financial accounts each year. Awards are made once the financial performance has been verified by the company's external auditor and approved by the Board. Wesfarmers' 2005/06 performance against the comparative group, giving rise to the payments made during 2006/07, was 22.1% which exceeded the 50th percentile of the comparative group, which was 14.3%.

##### 4.2.2.2 Executive Directors

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

# Directors' report

Wesfarmers Limited and its controlled entities

## 4. Remuneration of Executive Directors and Senior Executives (continued)

### 4.2.2.2 Executive Directors (continued)

#### Award Determination

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

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

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

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

where:

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

"Hurdle Rate" is a hurdle ROE (as a surrogate for the cost of equity) determined as the average of the Commonwealth Bond Ten Year Indicator rate (2006/07: 5.98%) plus a market risk premium of 6.6%; and

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

#### Determining the entitlement

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

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

#### Form of entitlement

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

#### Estimated amount of entitlement and entitlement caps

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

#### Checks and Balances

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

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

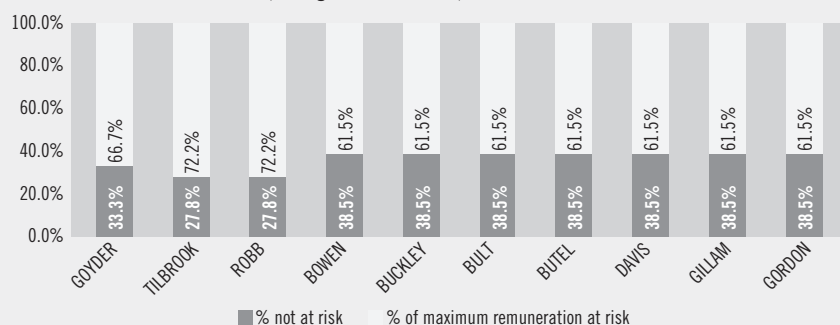
# Directors' report

Wesfarmers Limited and its controlled entities

## 4. Remuneration of Executive Directors and Senior Executives (continued)

### 4.3 At risk remuneration

The proportion of at risk remuneration for Executive Directors and Senior Executives in 2006/07 varied between 61.5 per cent and 72.2 per cent of their maximum remuneration, being the sum of FAR, maximum annual incentive and maximum long term incentive.



### 4.4 Retention incentive

Senior Executives are entitled to a retention incentive/service payment which accrues over the first five years of their employment contract and is payable on termination. This incentive is important to the retention strategy for key executives. The amount is determined by multiplying the payout factor by the total target remuneration at the time of termination. The payout factor increases proportionately from 0.2 after one year to 1.0 after five years. If the company initiates the termination, other than for reasons related to serious misconduct, the payout factor is 1.0. Total target remuneration means FAR plus target annual incentive (40 per cent of FAR) and target long term incentive (50 per cent of FAR), and FAR for the group Managing Director. The amounts that would have been payable to the recipients (if those arrangements had applied for 2006/07) under these arrangements at 30 June 2007 total, in aggregate, \$9.5m (2006: \$8.9m). The increase in the accrued expense for the year is disclosed under "Post employment: other benefits" in Table 1 on pages 132 to 135.

## 5. Remuneration of Senior Managers

The remuneration structure for Senior Managers also has three main components: FAR, annual incentive and long term incentive. Each of these components is discussed in further detail in the following sections. An appropriate remuneration mix is determined for each management level with at risk rewards increasing with the level of responsibility.

### 5.1 Fixed Remuneration

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

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

This policy applied for both the current and prior year.

### 5.2 Variable Remuneration

#### 5.2.1 Annual incentive

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

MEASURES	WEIGHTING
<b>Financial</b>	Minimum 0.5
<ul style="list-style-type: none"> <li>Group net profit after tax</li> <li>Divisional earnings before interest and tax</li> <li>Divisional return on capital</li> </ul>	
<b>Non-financial</b>	Maximum 0.5
<ul style="list-style-type: none"> <li>Safety measures</li> <li>Discretionary</li> </ul>	
<b>Total</b>	1.0

# Directors' report

Wesfarmers Limited and its controlled entities

## 5. Remuneration of Senior Managers (continued)

### 5.2 Variable Remuneration (continued)

#### 5.2.1 Annual incentive (continued)

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

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

This policy applied for both the current and prior year.

#### 5.2.2 Long term incentive

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

WLTIP awards may be made annually. They have a value up to a fixed amount based on the seniority of the role, subject to achievement of the ROE hurdle described at paragraph 4.2.2.1 above. In 2006/07 the hurdle was achieved. Awards are made once the financial performance has been verified by the company's external auditor and approved by the Board.

## 6. Employment contracts

### 6.1 Executive Directors and Senior Executives

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

Term	Notice period	Termination provisions
<ul style="list-style-type: none"> <li>Employment contracts do not have a specified term.</li> </ul>	<ul style="list-style-type: none"> <li>Three months' notice of termination must be provided by either party. In the event of redundancy, the company must provide six months' notice.</li> <li>The company may terminate immediately for issues related to serious misconduct.</li> </ul>	<ul style="list-style-type: none"> <li>A retention payment of up to one times total target remuneration may be made as described at 4.4 of this report.</li> <li>No further payment is provided in the event of redundancy.</li> </ul>

### 6.2 Managing Director's contract

Mr Richard Goyder was appointed group Managing Director and Chief Executive Officer on 13 July 2005. Key features of Mr Goyder's employment contract include:

Term	Termination	Remuneration
<ul style="list-style-type: none"> <li>The contract commenced on 13 July 2005 and continues until either party terminates the contract.</li> </ul>	<ul style="list-style-type: none"> <li>Twelve months' notice of termination must be provided by either party.</li> <li>The company may terminate immediately for issues related to serious misconduct, breach of contract, bankruptcy or mental incapacity.</li> <li>Mr Goyder is entitled to a service payment which provides one year's FAR on cessation other than for reasons of serious misconduct or other grounds specified in the contract.</li> <li>No other amount is payable on termination, other than pay in lieu of notice in the event that the company does not wish Mr Goyder to work out the required notice period.</li> </ul>	<ul style="list-style-type: none"> <li>The remuneration comprises two components; FAR and long term incentive. It has no fixed term and contains no short term incentive component as the Board is of the view that the group Managing Director should be judged and rewarded based on performance over an extended period.</li> <li>The commencing FAR was \$2.25m and is reviewed annually by the Board. The FAR increased to \$2.475m effective 1 October 2006. From this amount the minimum statutory superannuation amount is deducted, and Mr Goyder may choose to salary sacrifice for additional superannuation, motor vehicle and other benefits.</li> <li>An explanation of Mr Goyder's long term incentive is provided above in section 4.2.2.2.</li> </ul> <p>The long term incentive amount disclosed in Table 1 relates to the award provided under the WLTIP in December 2006 which was based on 2005/06 company performance. The award to be made in November 2007 relates to 2006/07 company performance and the expense for that award will be reflected in the 2007/08 accounts. The pool accrual and accounting charge will be \$2.16m, and the amount to be awarded to Mr Goyder in the form of shares will be \$3.29m.</p>

# Directors' report

Wesfarmers Limited and its controlled entities

## 7. Details of remuneration

The following tables provide full details of remuneration provided to key management personnel of Wesfarmers Limited for the year to 30 June 2007.

**Table 1: Compensation of Key Management Personnel for the year ended 30 June 2007**

		SHORT-TERM BENEFITS			
		SALARY & FEES \$	CASH BONUS \$	NON-MONETARY BENEFITS \$	OTHER \$
<b>DIRECTORS</b>					
<b>C B Carter</b>	<b>2007</b>	<b>100,322</b>	–	–	<b>6,300</b>
Director (non-executive)	2006	133,133	–	–	8,700
<b>M A Chaney</b>	<b>2007</b>	–	–	–	–
Managing Director and Chief Executive Officer (retired 12 July 2005)	2006	41,587	–	–	–
<b>P A Cross</b>	<b>2007</b>	<b>107,315</b>	–	–	<b>6,300</b>
Director (non-executive)	2006	105,740	–	–	8,700
<b>T R Eastwood</b>	<b>2007</b>	<b>399,581</b>	–	–	<b>6,300</b>
Chairman (non-executive)	2006	390,299	–	–	8,700
<b>R L Every</b>	<b>2007</b>	<b>152,910</b>	–	–	<b>6,300</b>
Director (non-executive, appointed 1 February 2006)	2006	51,606	–	–	3,625
<b>T J Flugge</b>	<b>2007</b>	–	–	–	–
Director (non-executive, resigned 3 July 2006)	2006	149,668	–	–	8,700
<b>L A Giglia</b>	<b>2007</b>	<b>13,885</b>	–	–	<b>2,142</b>
Director (non-executive, resigned 1 November 2006)	2006	100,217	–	–	8,700
<b>R J B Goyder</b>	<b>2007</b>	<b>2,280,707</b>	–	<b>114,776</b>	<b>6,300</b>
Managing Director and Chief Executive Officer (appointed 13 July 2005)	2006	2,081,013	–	100,103	138,507
<b>J P Graham</b>	<b>2007</b>	<b>243,032</b>	–	–	<b>6,300</b>
Director (non-executive)	2006	230,050	–	–	8,700
<b>R D Lester</b>	<b>2007</b>	<b>105,103</b>	–	–	<b>6,300</b>
Director (non-executive)	2006	140,670	–	–	8,700
<b>C Macek</b>	<b>2007</b>	<b>149,877</b>	–	–	<b>6,300</b>
Director (non-executive)	2006	142,233	–	–	8,700
<b>D A Robb</b>	<b>2007</b>	<b>142,953</b>	–	<b>8,643</b>	<b>1,197</b>
Managing Director, Wesfarmers Energy & Executive Director (resigned 8 September 2006)	2006	730,093	–	58,493	8,700
<b>G T Tilbrook</b>	<b>2007</b>	<b>814,204</b>	<b>555,200</b>	<b>67,230</b>	<b>6,300</b>
Finance Director (appointed 13 July 2005)	2006	797,029	213,600	80,711	8,700
<b>D C White</b>	<b>2007</b>	<b>122,853</b>	–	–	<b>6,300</b>
Director (non-executive)	2006	123,410	–	–	8,700

Please refer to the notes for this table on page 134.

# Directors' report

Wesfarmers Limited and its controlled entities

POST EMPLOYMENT BENEFITS		LONG – TERM	SHARE BASED PAYMENTS	TERMINATION BENEFITS	TOTAL	TOTAL PERFORMANCE RELATED
SUPERANNUATION BENEFITS	OTHER BENEFITS	OTHER LONG TERM BENEFITS	VALUE OF SHARES	TERMINATION BENEFITS		
\$	\$	\$	\$	\$	\$	%
<b>49,378</b>	–	–	–	–	<b>156,000</b>	–
13,167	–	–	–	–	155,000	–
–	–	–	–	–	–	–
–	34,951	–	–	–	76,538	–
<b>42,385</b>	–	–	–	–	<b>156,000</b>	–
40,560	–	–	–	–	155,000	–
<b>39,519</b>	–	–	–	–	<b>445,400</b>	–
38,601	–	–	–	–	437,600	–
<b>15,123</b>	–	–	–	–	<b>174,333</b>	–
5,186	–	–	–	–	60,417	–
–	–	–	–	–	–	–
16,632	–	–	–	–	175,000	–
<b>35,436</b>	–	–	–	–	<b>51,463</b>	–
46,083	–	–	–	–	155,000	–
<b>38,000</b>	<b>225,000</b>	–	<b>2,639,971</b>	–	<b>5,304,754</b>	<b>49.8</b>
38,000	445,000	–	475,000	–	3,277,623	14.5
–	–	–	–	–	<b>249,332</b>	–
–	–	–	–	–	238,750	–
<b>59,597</b>	–	–	–	–	<b>171,000</b>	–
15,630	–	–	–	–	165,000	–
<b>14,823</b>	–	–	–	–	<b>171,000</b>	–
14,067	–	–	–	–	165,000	–
<b>20,022</b>	–	–	–	<b>2,942,688</b>	<b>3,115,503</b>	–
100,587	281,200	–	371,000	–	1,550,073	23.9
<b>102,400</b>	<b>209,000</b>	–	<b>1,319,968</b>	–	<b>3,074,302</b>	<b>61.0</b>
12,139	281,200	–	371,000	–	1,764,379	33.1
<b>61,847</b>	–	–	–	–	<b>191,000</b>	–
52,890	–	–	–	–	185,000	–



# Directors' report

Wesfarmers Limited and its controlled entities

## 7. Details of remuneration (continued)

Table 1: Compensation of Key Management Personnel for the year ended 30 June 2007 (continued)

		SHORT-TERM BENEFITS			
		SALARY & FEES \$	CASH BONUS \$	NON-MONETARY BENEFITS \$	OTHER \$
<b>Executives</b>					
<b>T J Bowen</b>	<b>2007</b>	<b>580,208</b>	<b>251,456</b>	<b>28,114</b>	<b>6,300</b>
Managing Director, Industrial & Safety Division (appointed 24 October 2005)	2006	426,620	49,315	19,401	5,800
<b>R J Buckley</b>	<b>2007</b>	<b>494,602</b>	<b>146,315</b>	<b>43,607</b>	<b>6,300</b>
Chief Executive Officer, Insurance Division	2006	521,853	73,200	58,637	8,700
<b>T J Bult</b>	<b>2007</b>	<b>318,277</b>	<b>223,168</b>	<b>12,238</b>	<b>5,040</b>
Managing Director, Energy Division (appointed 11 September 2006)	2006	—	—	—	—
<b>S A Butel</b>	<b>2007</b>	<b>326,716</b>	<b>235,675</b>	<b>36,089</b>	<b>5,040</b>
Managing Director, Coal Division (appointed 11 September 2006)	2006	—	—	—	—
<b>P J C Davis</b>	<b>2007</b>	<b>652,198</b>	<b>388,725</b>	<b>3,322</b>	<b>6,300</b>
Chief Operating Officer, Home Improvement Division	2006	602,646	214,382	16,107	8,700
<b>R M Denby</b>	<b>2007</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>
Managing Director, Industrial & Safety Division (resigned 30 November 2005)	2006	201,854	—	26,709	3,625
<b>J C Gillam</b>	<b>2007</b>	<b>743,113</b>	<b>446,335</b>	<b>156,776</b>	<b>6,300</b>
Managing Director, Home Improvement Division	2006	702,967	202,896	172,786	8,700
<b>K D Gordon</b>	<b>2007</b>	<b>464,023</b>	<b>299,805</b>	<b>36,914</b>	<b>6,300</b>
Managing Director, Chemicals & Fertilisers Division	2006	428,089	91,800	49,321	8,700
<b>Total Remuneration:</b>	<b>2007</b>	<b>8,211,879</b>	<b>2,546,679</b>	<b>507,709</b>	<b>107,919</b>
	2006	8,100,777	845,193	582,268	282,057

Note: (1) All directors and specified executives have held their position for the entire reporting period, unless otherwise specified

(2) James Graham's fees are paid to Gresham Partners for participation on the Boards of Wesfarmers Limited, Wesfarmers Federation Insurance and Lumley General Insurance. Of the salaries and fees above, \$171,000 (2006: \$165,000) relates to the parent company only.

(3) Share based payments: Shares were allocated under the Wesfarmers Long Term Incentive Plan (WLTIP) on 1 December 2006 at an allocation price of \$34.5650. The previous allocation under the WLTIP was on 28 October 2005 at an allocation price of \$35.9611.

# Directors' report

Wesfarmers Limited and its controlled entities

POST EMPLOYMENT BENEFITS		LONG – TERM	SHARE BASED PAYMENTS	TERMINATION BENEFITS	TOTAL	TOTAL PERFORMANCE RELATED
SUPERANNUATION BENEFITS	OTHER BENEFITS	OTHER LONG TERM BENEFITS	VALUE OF SHARES	TERMINATION BENEFITS		
\$	\$	\$	\$	\$	\$	%
<b>25,000</b>	<b>253,569</b>	–	<b>599,979</b>	–	<b>1,744,626</b>	<b>48.8</b>
17,262	155,540	–	–	–	673,938	7.3
<b>105,113</b>	<b>291,309</b>	–	<b>457,468</b>	–	<b>1,544,714</b>	<b>39.1</b>
19,510	281,067	–	268,306	–	1,231,273	27.7
<b>16,191</b>	<b>129,200</b>	–	<b>212,471</b>	–	<b>916,585</b>	<b>47.5</b>
–	–	–	–	–	–	–
<b>85,091</b>	<b>167,200</b>	–	<b>274,999</b>	–	<b>1,130,810</b>	<b>45.2</b>
–	–	–	–	–	–	–
<b>42,385</b>	<b>377,033</b>	–	<b>327,469</b>	–	<b>1,797,432</b>	<b>39.8</b>
33,250	278,302	–	312,000	–	1,465,387	35.9
–	–	–	–	–	–	–
7,950	11,500	–	–	785,094	1,036,732	–
<b>40,977</b>	<b>437,000</b>	–	<b>774,982</b>	–	<b>2,605,483</b>	<b>46.9</b>
36,754	416,708	–	333,900	–	1,874,711	28.6
<b>42,385</b>	<b>237,692</b>	–	<b>382,496</b>	–	<b>1,469,615</b>	<b>46.4</b>
38,857	208,507	–	224,077	–	1,049,351	30.1
<b>835,672</b>	<b>2,327,003</b>	–	<b>6,989,803</b>	<b>2,942,688</b>	<b>24,469,352</b>	
547,125	2,393,975	–	2,355,283	785,094	15,891,772	

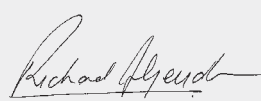
## 8. INDEPENDENT AUDIT OF REMUNERATION REPORT

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

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



T R Eastwood  
Chairman



R J B Goyder  
Managing Director  
Perth, 11 September 2007

# Directors' declaration

Wesfarmers Limited and its controlled entities

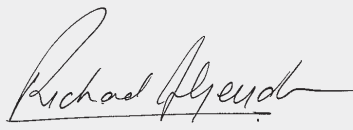
In accordance with a resolution of the directors of Wesfarmers Limited, we state that:

1. In the opinion of the directors:
  - 1.1 the financial statements, notes and the additional disclosures included in the directors' report of the company and the consolidated entity are in accordance with the Corporations Act 2001, including:
    - (a) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2007 and of their performance for the year ended on that date; and
    - (b) complying with Accounting Standards and the Corporations Regulations 2001; and
  - 1.2 there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.
2. This declaration has been made after receiving the declaration required to be made to the directors in accordance with section 295A of the Corporations Act 2001 for the financial year ended 30 June 2007.
3. In the opinion of the directors, as at the date of this declaration, there are reasonable grounds to believe that the members of the closed group comprising the company and the controlled entities marked "+" as identified in note 32 will be able to meet any obligations or liabilities to which they are or may become subject to by virtue of the deed of cross guarantee referred to in note 33.

On behalf of the Board:



T R Eastwood  
Chairman



R J B Goyder  
Managing Director  
Perth, 11 September 2007

# Independent audit report

to members of Wesfarmers Limited

We have audited the accompanying financial report of Wesfarmers Limited, which comprises the balance sheet as at 30 June 2007, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

The company has disclosed information as required by paragraphs Aus 25.4 to Aus 25.7.2 of Accounting Standard 124 *Related Party Disclosures* ("remuneration disclosures"), under the heading "Remuneration Report" on pages 125 to 135 of the directors' report, as permitted by Corporations Regulation 2M.6.04.

## Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with the Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 2, the directors also state that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards. The directors are also responsible for the remuneration disclosures contained in the directors' report.

## Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement and that the remuneration disclosures comply with Accounting Standard AASB 124 Related Party Disclosures.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

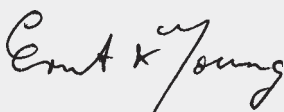
## Independence

In conducting our audit we have met the independence requirements of the Corporations Act 2001. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report. In addition to our audit of the financial report and the remuneration disclosures, we were engaged to undertake the services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.

## Auditor's Opinion

In our opinion:

1. the financial report of Wesfarmers Limited is in accordance with the Corporations Act 2001, including:
  - (i) giving a true and fair view of the financial position of Wesfarmers Limited and the consolidated entity at 30 June 2007 and of their performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.
2. the financial report also complies with International Financial Reporting Standards as disclosed in Note 2.
3. the remuneration disclosures that are contained on pages 125 to 135 of the directors' report comply with Accounting Standard AASB 124 Related Party Disclosures.



Ernst & Young



S C Van Gorp  
Partner  
Perth, 11 September 2007

Liability limited by a scheme approved under  
Professional Standards Legislation.

# Annual statement of coal resources and reserves

as at 30 June 2007

## COAL RESOURCES AND RESERVES

The table below details the coal resources and reserves for the Wesfarmers group, as at 30 June 2007.

MINE	OWNERSHIP	BENEFICIAL INTEREST	LOCATION OF TENEMENTS	MINING METHOD	COAL TYPE	COAL RESERVES TONNES (MILLIONS)			COAL RESOURCES TONNES (MILLIONS)			
						PROVED	PROBABLE	TOTAL	MEASURED	INDICATED	INFERRED	TOTAL
<b>Premier</b>	Wesfarmers Premier Coal Limited	100%	Collie, Western Australia	Open cut	Steaming	101	21	<b>122</b>	292	52	8	<b>352</b>
<b>Curragh</b>	Wesfarmers Curragh Pty Ltd	100%	Bowen Basin, Queensland	Open cut	Metallurgical and Steaming	184	7	<b>191</b>	349	137	163	<b>649</b>
<b>Bengalla</b>	Wesfarmers Bengalla Limited	40%	Hunter Valley, New South Wales	Open cut	Steaming	46	30	<b>76</b>	12	32	24	<b>68</b>

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

## CHARACTERISTICS OF COAL RESERVES AND RESOURCES

### Premier

The coal is sub-bituminous and is used in the domestic market both as steaming coal and in industrial processes. The resource is contained in 65 seams of varying coal quality characteristics. Coal is currently produced from 12 of these seams. Coal is extracted by open cut methods, currently to depths less than 145 metres below the ground surface.

### Curragh

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

### Bengalla

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

## JORC CODE COMPLIANCE

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

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

Each Competent Person consents to the inclusion in this report of the matters based on their information in the form and context in which it appears.

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

## Competent Persons

**Premier** Mr David Chapman is employed by Wesfarmers Premier Coal Limited, a wholly owned subsidiary of Wesfarmers Limited.  
Member AusIMM

**Curragh** Mr Barry Lay, a full time employee of Curragh Queensland Mining Pty Ltd, a wholly owned subsidiary of Wesfarmers Curragh Pty Ltd.  
Member AusIMM

**Bengalla** Mr Mal Scott, a full time employee of Rio Tinto Coal Australia Pty Limited.  
Member AusIMM  
Mr Ken Preston, a full time employee of Rio Tinto Coal Australia Pty Limited.  
Member AusIMM

# Shareholder information

Wesfarmers Limited and its controlled entities

## SHAREHOLDER INFORMATION

Wesfarmers Limited and its controlled entities

### SUBSTANTIAL SHAREHOLDERS

As at the date of this report no person held a substantial shareholding in the company for the purposes of Part 6C.1 of the Corporations Act 2001.

### VOTING RIGHTS

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

## DISTRIBUTION OF MEMBERS AND THEIR HOLDINGS

### RANGE OF SHARES

SIZE OF HOLDINGS	NUMBER OF ORDINARY SHAREHOLDERS
1 - 1,000	113,836
1,001 - 5,000	41,800
5,001 - 10,000	4,828
10,001 - 100,000	2,975
100,001 - and over	147
	<hr/> 163,586 <hr/>

There were 911 holders holding less than a marketable parcel of ordinary shares.

Less than 1.52 per cent of shareholders have registered addresses outside Australia.

### TWENTY LARGEST SHAREHOLDERS

The twenty largest shareholders of ordinary shares on the company's register as at 11 September 2007 were:

NAME	NUMBER OF SHARES	% OF ISSUED CAPITAL
National Nominees Limited	25,580,848	6.59
HSBC Custody Nominees (Australia) Limited	19,514,939	5.03
J P Morgan Nominees Australia Limited	17,389,685	4.48
Citicorp Nominees Pty Limited	14,638,632	3.77
ANZ Nominees Limited (Cash Income A/C)	10,591,010	2.73
Australian Foundation Investment Company Limited	4,905,928	1.26
UBS Nominees Pty Ltd (116C A/C)	4,000,000	1.03
Cogent Nominees Pty Limited	2,764,748	0.71
Argo Investments Limited	2,535,000	0.65
RBC Dexia Investor Services Australia Nominees Pty Limited (PIPOOLED A/C)	2,507,174	0.65
HSBC Custody Nominees (Australia) Limited - A/C 2	2,301,121	0.59
Citicorp Nominees Pty Limited (CFS WSLE Geared Shr Fnd A/C)	2,306,808	0.59
Queensland Investment Corporation	2,328,113	0.60
AMP Life Limited	1,194,299	0.50
RBC Dexia Investor Services Australia Nominees Pty Limited (MLCI A/C)	1,455,332	0.38
Perpetual Trustee Company Limited	1,347,951	0.35
Milton Corporation Limited	1,322,166	0.34
RBC Dexia Investor Services Australia Nominees Pty Limited	1,237,367	0.32
UBS Wealth Management Australia Nominees Pty Ltd	1,192,500	0.31
Suncorp Custodian Services Pty Limited (AET)	1,164,099	0.30

The percentage holding of the twenty largest shareholders was 31.18.

# Five year financial history

Wesfarmers Limited and its controlled entities

ALL FIGURES IN \$000 UNLESS SHOWN OTHERWISE	AIFRS 2007	AIFRS 2006	AIFRS 2005	AGAAP 2004	AGAAP 2003
<b>SUMMARISED PROFIT AND LOSS</b>					
Sales revenue	9,666,350	8,818,291	8,101,112	7,441,539	7,425,836
Other Revenue	87,363	40,510	57,519	965,953	327,538
Total revenue	9,753,713	8,858,801	8,158,631	8,407,492	7,753,374
Profit before depreciation, net interest paid and income tax	1,565,217	1,597,363	1,222,808	1,161,558	1,065,379
Depreciation and amortisation (ex goodwill)	(344,748)	(283,467)	(188,861)	(193,848)	(206,240)
Net interest paid	(115,501)	(81,747)	(67,313)	(50,483)	(65,266)
Income tax expense	(318,481)	(362,713)	(264,797)	(267,062)	(226,283)
	786,487	869,436	701,837	650,165	567,590
Outside equity interests	(149)	–	–	4,535	290
Operating profit after income tax before goodwill amortisation	786,338	869,436	701,837	654,700	567,880
Goodwill amortisation	–	–	–	(85,536)	(85,734)
Operating profit after income tax attributable to members of Wesfarmers Limited	786,338	869,436	701,837	569,164	482,146
<b>CAPITAL AND DIVIDENDS</b>					
Ordinary shares on issue (number) (thousands)	388,069	378,042	378,042	376,354	376,536
Paid up ordinary capital	2,255,958	1,901,522	1,901,164	2,345,633	3,159,466
Dividend per ordinary share (cents fully franked)	225	215	180	140	127
<b>FINANCIAL PERFORMANCE BEFORE GOODWILL AMORTISATION</b>					
Earnings per ordinary share (weighted average) (cents)	210.5	235.6	192.0	174.2	150.8
Earnings per ordinary share growth	-10.7%	22.7%	10.2%	15.6%	9.1%
Return on average ordinary shareholders' funds	25.1%	31.1%	25.4%	18.5%	15.8%
Income tax expense (effective rate)	28.8%	29.4%	27.4%	29.1%	28.5%
<b>FINANCIAL PERFORMANCE AFTER GOODWILL AMORTISATION</b>					
Earnings per ordinary share (weighted average) (cents)	210.5	235.6	192.0	151.5	128.0
Earnings per ordinary share growth	-10.7%	22.7%	26.8%	18.3%	10.4%
Return on average ordinary shareholders' funds	25.1%	31.1%	25.4%	16.2%	13.3%
Net interest cover - cash basis (times)	8.7	13.8	12.4	15.8	14.2
Income tax expense (effective rate)	28.8%	29.4%	27.4%	39.5%	32.2%
<b>FINANCIAL POSITION AS AT 30 JUNE</b>					
Total assets	12,076,249	7,430,225	7,152,769	7,271,400	6,418,102
Total liabilities	8,573,115	4,264,226	4,410,568	3,940,875	2,653,025
Net assets	3,503,134	3,165,999	2,742,201	3,330,525	3,765,077
Outside equity interests in controlled entities	201	52	52	(2,087)	6,597
Shareholders' equity attributable to members of Wesfarmers Limited	3,502,933	3,165,947	2,742,149	3,332,612	3,758,480
Net tangible asset backing per ordinary share	\$2.11	\$4.59	\$3.47	\$4.94	\$5.95
Net financial debt to net tangible assets	625.1%	86.0%	135.1%	81.5%	39.7%
Net financial debt to equity	143.6%	46.1%	62.9%	45.5%	23.7%
Total external liabilities/total assets (excluding project financing)	71.0%	57.4%	61.6%	54.2%	40.3%
<b>STOCK MARKET CAPITALISATION AS AT 30 JUNE (millions)</b>					
	17,746	13,356	15,125	11,065	9,526

Excludes significant items:

In 2003 - Sale of Girrah coal deposit

In 2004 - Sale of rural services business

In 2006 - Sale of ARG

# Investor information

## Shareholder inquiries

If you have questions about your shareholding or dividends please contact the company's share registry, Computershare Investor Services Pty Limited, Level 2, 45 St George's Terrace, Perth, Western Australia 6000

### Investor inquiries:

Australia: 1300 558 062  
International: (+61 3) 9415 4631

### Facsimile:

Australia: (08) 9323 2033  
International: (+61 8) 9323 2033

### Website:

[www.computershare.com.au](http://www.computershare.com.au)

When communicating with the share registry, it will assist if you can quote your current address together with your Security Reference Number (SRN) or Holder Identification Number (HIN) as shown on your Issuer Sponsored/CHES statements.

## Wesfarmers website

[www.wesfarmers.com.au](http://www.wesfarmers.com.au)

## Stock exchange listing

Wesfarmers shares are listed on the Australian Securities Exchange and reported in the industrial section in daily newspapers - code WES. Share prices can also be accessed on the Wesfarmers website or at [www.asx.com.au](http://www.asx.com.au).

## Dividend investment plan

The company's dividend investment plan was reinstated with effect from 27 February 2007.

Details of the plan can be obtained from the share registry or the Wesfarmers website.

## Electronic payment of dividends

Shareholders may nominate a bank, building society or credit union account for the payment of dividends by direct credit. Payments are electronically credited on the dividend payment date and

confirmed by a mailed payment advice. Shareholders wishing to take advantage of payment by direct credit should contact the share registry. An appropriate form can be downloaded from the share registry website.

## Uncertificated share register

The Wesfarmers share register is uncertificated. Two forms of uncertificated holdings are available to shareholders:

### Issuer sponsored holdings

These holdings are sponsored by Wesfarmers and there is no need for shareholders to be sponsored by a stockbroker.

### Broker sponsored holdings

Shareholders may arrange to be sponsored by a stockbroker who will require a signed sponsorship agreement.

Holding statements are issued to shareholders within five business days after the end of any month in which transactions occur that alter the balance of their holding.

Shareholders can also access details of their shareholdings and dividends paid on their holdings through the share registry website.

## Change of address of banking details

Shareholders should immediately notify the share registry in writing of any changes of address or banking details for dividends electronically credited to a bank account. Appropriate forms can be downloaded from the share registry website.

## Change of name

Shareholders should notify the share registry in writing if they change their name. The required form can be downloaded from the share registry website. Certified copies of the relevant marriage certificate, deed poll or other supporting documentation should be provided with the notice.

## Amalgamation of holdings

Shareholders with multiple shareholdings in Wesfarmers who would prefer to consolidate them into one holding, should contact the share registry. The required form can be downloaded from the share registry website.

## Tax file numbers

While it is not compulsory to provide a tax file number (TFN), if shareholders have not provided a TFN and Wesfarmers pays an unfranked or partly franked dividend, the company will be required to deduct tax from the unfranked portion of the dividend at the top marginal rate. TFN forms can be obtained by contacting the share registry or by downloading the form from the share registry website.

## Privacy

A copy of the Wesfarmers privacy policy is available on the Wesfarmers website.

## Publications

The annual report is the main source of information for shareholders. Shareholders can also elect to receive a shareholder review, an easy to read summary of the annual report, covering the key areas including financial results, performance highlights and reports from the Chairman and Managing Director.

The company also publishes a half-year report which reviews, in summary, the six months to December.

Other publications available on request include the Chairman's address given at the most recent annual general meeting and the latest edition of the Sustainability Report.

Further information and publications about the company's operations are available from the

Public Affairs Department, telephone (08) 9327 4251 (within Australia) or (+61 8) 9327 4251 (International) or from the Wesfarmers website.

## Publication options

Following recent changes to the Corporations Act 2001, the company will be offering shareholders the option of receiving an email about the release of future annual reports instead of receiving a hard copy report. Further information about the election to receive electronic notification of future annual reports is provided as part of the material to be sent to shareholders for the 2007 annual general meeting or can be obtained from the share registry.

Shareholders can also download the appropriate form or change their preferences online by going to the share registry website.

Shareholders who choose not to receive the annual and half-year reports will continue to receive all other information, including the notice of annual general meeting and proxy form.

## Electronic communications

Shareholders can elect to receive electronic notifications, notice of meetings, electronic proxy voting and other important company announcements. Shareholders can register for this service by accessing the "Shareholders & Investors" tab on the Wesfarmers website and then following the prompts under "Company E-News".





**Wesfarmers**

**[www.wesfarmers.com.au](http://www.wesfarmers.com.au)**