WOOLWORTHS LIMITED

A.B.N. 88 000 014 675

ANNUAL REPORT 2006

CONTENTS

Highlights

Sales up 20.4% from continuing operations.

Total sales for this year compared with last year up 20.4% to $37,734 million.

Earnings before interest and taxation (EBIT) up 32.3% to $1,722.2 million.

EBIT margins improved from 4.16% in 2005 to 4.56% in 2006.

Earnings before interest, taxation, depreciation and amortisation (EBITDA) up 30.6% to $2,244.4 million.

Earnings per share (EPS) up 14.8% to 90.9 cents (AIFRS adjusted).

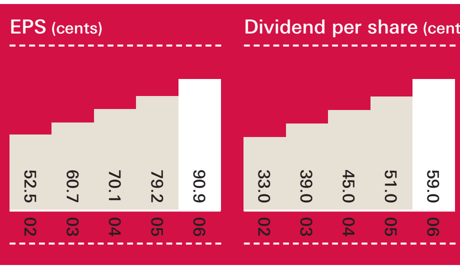
Final dividend per share (DPS) 31 cents to bring total DPS for the year to 59 cents, up 15.7% with total dividend paid and proposed for the year amounting to approximately $692.4 million.

Reduction in inventory days (excluding Progressive and Taverner) from 30.4 days to 29.1 days, a reduction of 1.3 days.

Net operating profit after tax up 24.3% to $1,014.6 million.

Average return on funds employed (ROFE) was 28.6%.

CHAIRMAN'S REPORT TO THE SHAREHOLDERS



RECORD RESULTS

I am pleased to report on another outstanding year for Woolworths, with Roger Corbett (in his last year as Group Managing Director and CEO) and his management team again delivering record results across a wide range of performance criteria.

This is highlighted by the achievement of a net profit after tax of $1 billion for the first time, a real landmark. It has enabled the delivery of excellent returns for shareholders with earnings per share increasing by 14.8% and with a total dividend of 59 cents per share, up 15.7%.

KEY PRIORITIES

The continuing improvement over the last eight years reflects the constant focus on two key priorities – driving cost reductions and efficiency, combined with healthy growth internally and by acquisitions.

The huge improvements via Project Refresh and building a new supply chain system have ensured Woolworths is at world standards in terms of efficiency and cost-effectiveness. These are a great credit to the teams throughout the Group who have planned, implemented and refined these complex arrangements to make them a great contributor to the future of the business for many years ahead.

COMPETITIVE ENVIRONMENT

All of this has been achieved in a very competitive environment, and some pressures on the prevailing economic climate in parts of the market.

Left
James Strong, Chairman, Roger Corbett, outgoing Chief Executive Officer and Michael Luscombe, Chief Operating Officer.

SUCCESSFUL ACQUISITIONS

A further testament to a well-balanced performance by Roger Corbett and his team is the simultaneous acquisitions and integration of major new assets, including Progressive Enterprises Limited supermarket operations in New Zealand, the Taverner Hotel Group, the Bruce Mathieson Group (BMG) and the Australian Leisure and Hospitality Group (ALH).

TRIBUTE TO ROGER CORBETT

On behalf of all shareholders and the Board, I would like to pay tribute to Roger Corbett for an outstanding performance as Managing Director and Chief Executive. His period of leadership has seen Woolworths transformed to great advantage for its investors and staff.

Roger has shown remarkable dedication, energy, passion and high ethical standards which have set a wonderful example for everyone in the Group.

The Board acted very deliberately to ensure Roger will be available for selected tasks and advice without in any way cutting across the role of his successor as CEO, Michael Luscombe.

MICHAEL LUSCOMBE

The Board was delighted to appoint Michael to become CEO and Managing Director from within our talented senior management ensuring a smooth transition with continuity and his long-term experience.

Over the recent years, the standard of its management team and their stability has been a major factor in the success of the Woolworths Group.

Large, complex enterprises must have very competent teams driving every detailed part of the business.

GOVERNANCE

This Annual Report contains a section dedicated to reporting on our continued attention to high standards of governance. Woolworths has a small but dedicated Board of Directors, and I thank them for their part in the success of the Group.

CONTRIBUTION BY OUR PEOPLE

Woolworths has an impressive and dedicated team of approximately 175,000 people spread across many operations and stores. Our performance is a result of their efforts, individually and collectively.

On behalf of the Board, I thank them for their contribution, enthusiasm and pride in our business.

JAMES STRONG
CHAIRMAN

GROUP MANAGING DIRECTOR'S REPORT

On behalf of my colleagues and all of the approximately 175,000 members of the Woolworths team, I am proud to report to you another excellent result for the financial year 2005/2006. This year our net profit after tax (NPAT) exceeded $1 billion ($1,014.6 million) for the first time in Woolworths' history, which is an outstanding result and milestone for the Group. This result reflects the commitment and dedication of the Woolworths' team and consistent delivery against our clearly articulated strategies.

The strong operating performance this year was achieved despite undertaking significant transforming business changes, incurring one-off costs associated with the transition to our new supply chain and the focus on integrating our acquisitions. The management team at Woolworths has performed outstandingly, keeping focused on the customer in a challenging and transitioning year.

TRADING ACHIEVEMENTS

Our **Australian Supermarket** division traded strongly. Comparable sales growth was strong over the year and consistent with expectations.

The **New Zealand Supermarket** division traded above our expectations. Woolworths acquired this business on 2 November 2005. There are significant opportunities to enhance this business with good progress being made on many of these initiatives.

BIG W had a solid result for the year in a difficult market. Sales exceeded $3 billion for the first time in BIG W's trading history and comparable sales growth for the year was broadly in line with expectations, despite a tightening of discretionary spending. There continues to be positive widespread acceptance of our Every Day Low Pricing strategy.

Dick Smith Electronics produced an excellent result with double-digit sales and EBIT growth. Comparable sales (after adjusting for the impact of negative movements in the New Zealand dollar) also increased by a healthy 10.6%, carrying on from the excellent comparable sales growth shown in 2005.

Petrol now has comprehensive coverage across Australia and continues to deliver significant retail volumes of petroleum products, whilst providing a valued discount to our Supermarket and BIG W customers. With full year petrol sales of $4.4 billion and a network of 491 sites across Australia, we are well-placed to continue to grow and consolidate this key business.

Liquor – The continued development and rollout of our liquor outlets across Australia, trading under the brand names of Woolworths Liquor, BWS and Dan Murphy's, has allowed us to meet our stated medium-term target of $3.5 billion in annual liquor sales even earlier than expected. At year end we had over one thousand liquor outlets around Australia.

BUSINESS ACHIEVEMENTS

Significant benefits are being achieved from improving the IT and supply chain processes (Project Refresh) to world-class standards and now we are starting to reap the benefits arising from these improvements. These initiatives provide Woolworths with a major strategic advantage going forward and underpin our forecast cost reductions.

Since its inception in 1999 Project Refresh has concentrated on a number of initiatives including a major business restructuring program which saw significant changes in the way we do business. Over the past seven years to the end of FY06, Project Refresh has delivered cost savings amounting to 4.51% of sales. Measured in terms of dollars, this was a cumulative saving of $5.3 billion.

ACQUISITION ACHIEVEMENTS

Three significant acquisitions have been undertaken during the year: Progressive New Zealand (including 20 ex-FAL Australian supermarkets), Taverner and BMG. Each of these acquisitions has contributed significantly to the Group result and we have already made excellent progress in integrating these operations into the Group.

Our expansion into New Zealand has been particularly pleasing as this has expanded our base market and allows us to utilise our organisational strengths to directly benefit the ultimate consumer by way of better value, increased range and customer focused service. Our initial initiatives in the New Zealand market have been well received and we look forward to expanding on the goodwill we have developed and improving the overall shopping experience across this market.

Our hotel acquisitions have provided an opportunity to refocus our efforts on repositioning and improving our performance in all areas of our hotel and retail liquor businesses. There have been outstanding improvements in the cost of doing business in our Hotels division as a number of initiatives implemented post-acquisition, including restructuring and rationalising of support offices, systems and processes, have allowed for improved operating efficiencies at all venues. Further, we have also continued and enhanced our focus on our efforts in regard to responsible gaming practices.

During the year we also completed the successful sale of eleven of our Distribution Centres for $846 million. The transaction was very competitively priced and provides Woolworths with the flexibility to alter and adapt its Distribution Centres to meet its changing operational needs over time.

THE FUTURE

The past year has been an exciting and challenging one for Woolworths and I am greatly indebted to the Board, my colleagues and our supply partners for their continued support and dedication. Our performance is truly indicative of the hard work and commitment of Woolworths people at every level of our business and my thanks go to each one of them. Indeed, I firmly believe that the finest retail leaders in this country wear a Woolworths name badge. It is the continued efforts of all these people that ensure Woolworths has excellent foundations for continued growth.

Finally, I want to take this opportunity to thank all the staff of Woolworths for making me part of this family for many years. I have been fortunate to meet countless employees, suppliers and customers over this time, and it is truly the people that make this company great. I leave Woolworths in the most capable hands of the Board and Michael Luscombe. I know they will be ably supported by Woolworths' extremely strong, stable and experienced management team and the dedicated people who serve and support the customers in all of our stores. I feel proud that I have been a part of the drive to propel the company to greater success and market leadership whilst maintaining our core values and culture. It is on that confident note I can say, that the best is yet to come.

ROGER CORBETT
GROUP MANAGING DIRECTOR AND
CHIEF EXECUTIVE OFFICER

The strong operating performance this year was achieved despite undertaking significant transforming business changes, incurring one-off costs associated with the transition to our new supply chain and the focus on integrating our acquisitions. The management team at Woolworths has performed outstandingly, keeping focused on the customer in a challenging and transitioning year.

THE RESULTS IN BRIEF

52 WEEKS ENDED 25 JUNE 2006

SALES	*FY06 AIFRS $m*	*FY05 AIFRS $m*	*Change %*
Australian Food and Liquor	**25,458**[1]	23,570[3]	8.0%
New Zealand Supermarkets	**2,605**[2]	–	–
Petrol	**4,390**	3,308	32.7%
Supermarket division	**32,453**	26,878	20.7%
BIG W	**3,119**	2,909	7.2%
Consumer Electronics	**1,167**	1,007	15.9%
General Merchandise division	**4,286**	3,916	9.4%
Hotels	**850**[4]	416[5]	104.3%
Continuing operations	**37,589**	31,210	20.4%
Wholesale division	**145**	142	2.1%
Group sales	**37,734**	31,352	20.4%

EARNINGS BEFORE INTEREST AND TAX (EBIT)	*FY06 AIFRS Statutory $m*	*FY05 AIFRS Statutory $m*	*AIFRS Change %*	*FY05 AGAAP Statutory Before Goodwill $m*	*FY05 AGAAP Statutory After Goodwill $m*
Australian Food and Liquor	**1,286.0**	1,091.5	17.8%	1,105.8	1,077.2
New Zealand Supermarkets	**108.9**	–	–	–	–
Petrol	**53.1**	36.2	46.7%	36.3	36.3
Supermarket division	**1,448.0**	1,127.7	28.4%	1,142.1	1,113.5
BIG W	**123.1**	118.3	4.1%	118.0	118.0
Consumer Electronics	**64.0**	54.5	17.4%	55.0	51.8
General Merchandise division	**187.1**	172.8	8.3%	173.0	169.8
Hotels	**151.1**	52.8	186.2%	64.8	54.9
Total trading result	**1,786.2**	1,353.3	32.0%	1,379.9	1,338.2
Property	**18.3**	21.2	(13.7%)	20.3	20.3
Central overheads	**(84.1)**	(74.9)	12.3%	(77.9)	(77.9)
Continuing operations	**1,720.4**	1,299.6	32.4%	1,322.3	1,280.6
Wholesale division	**1.8**	2.5	(28.0%)	2.5	2.4
Group EBIT	**1,722.2**	1,302.1	32.3%	1,324.8	1,283.0

Notes

(1) Includes 20 Australian ex-FAL store sales from 2 November 2005, ALH retail, MGW retail and BMG retail sales for the 52 weeks and Taverner retail sales from 6 February 2006.

(2) Represents New Zealand Supermarket operations from 2 November 2005.

(3) Includes ALH retail liquor sales since 1 November 2004 and MGW retail liquor sales since 3 January 2005.

(4) Includes BMG hotel sales from 1 July 2005 and Taverner hotel sales from 6 February 2006.

(5) Represents ALH hotel sales since 1 November 2004 and MGW hotel sales since 3 January 2005.

	FY06 AIFRS Statutory $m	FY05 AIFRS Statutory $m	Change AIFRS Statutory %	FY05 AGAAP Statutory $m
PROFIT				
Earnings before interest, tax, depreciation, amortisation and rent (EBITDAR)	**3,314.5**	2,618.3	26.6%	2,648.9
Property rent – base	**925.6**	753.8	22.8%	758.5
Property rent – turnover contingent	**97.7**	80.6	21.2%	80.6
Fitout rent	**46.8**	65.8	(28.9%)	65.8
Earnings before interest, tax, depreciation and amortisation (EBITDA)	**2,244.4**	1,718.1	30.6%	1,744.0
Depreciation	**522.2**	416.0	25.5%	419.2
Goodwill amortisation	**–**	–	–	41.8
Earnings before interest and tax (EBIT)	**1,722.2**	1,302.1	32.3%	1,283.0
Net financing costs[(1)]	**249.7**	150.1	66.4%	153.7
Operating income tax expense	**445.8**	334.8	33.2%	337.7
Net operating profit after income tax	**1,026.7**	817.2	25.6%	791.6
Minority interests	**(12.1)**	(1.0)	–	(1.1)
Net operating profit after tax and outside equity interests	**1,014.6**	816.2	24.3%	790.5
Margins				
Gross profit	**25.03%**	24.89%	0.14%pts	24.89%
Cost of doing business	**20.47%**	20.73%	(0.26%)pts	20.80%
EBIT to sales	**4.56%**	4.16%	0.40%pts	4.09%
RETURNS				
Funds employed (period end)	**7,804.8**	4,230.1	84.5%	4,467.1
ROFE (average)	**28.6%**	42.6%	(14%)pts	38.7%
Weighted average ordinary shares on issue (million)[(2)]	**1,116.3**	1,030.6	8.3%	1,043.7
Ordinary earnings per share (cents)	**90.9**	79.2	14.8%	75.7
Diluted earnings per share (cents)	**90.3**	78.9	14.4%	75.3
Interim dividend per share (cents)	**28**	24	16.7%	24
Final dividend per share (cents)[(3)]	**31**	27	14.8%	27
Total dividend per share (cents)	**59**	51	15.7%	51

Notes

(1) Interest capitalisation $3.4 million (2005: $7.7 million).

(2) The average ordinary shares have been adjusted to remove employee shares held by the Custodian company as required under AIFRS.

(3) Final dividend payable on 6 October 2006 will be fully franked at 30% (2005: 30%).

AUSTRALIAN SUPERMARKET DIVISION

(INCLUDING LIQUOR AND PETROL)

During the year 46 new supermarkets were opened (1H: 29 stores, 2H: 17 stores) which includes 20 ex-FAL Australian stores (from 2 November 2005). Total trading area in Australian Supermarket grew by 6.1% which was in excess of our stated range due to the ex-FAL Australian stores acquired during the year. The bulk of the stores were opened towards the end of each half year.

Inventory levels for the year for the Australian Supermarket division were down by half a day (excluding the one-off impact of 20 ex-FAL Australian stores and Taverner retail). This is despite the impact of dual stocking required during transitioning to our new Distribution Centres (DCs) and the impact of moving stock from DSD to our new DC network. StockSmart and AutoStockR systems continue to provide us the opportunity to better manage inventory levels without decreasing stock availability.

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FOOD AND LIQUOR

For the full year, Australian Supermarket division sales increased 11.0% of which Food and Liquor sales in Australia grew 8.0% with comparable sales growing 3.7% during the year. Inflation in the year was just over 2%.

Cost savings continue to be vigorously pursued. The Australian Supermarket division's cost of doing business declined by 59 basis points during the year even after we expensed $80 million of transition costs associated with moving to our new supply chain arrangements.

Woolworths' policy is and has consistently been to reduce costs and lower prices. This will remain our fundamental strategy moving forward. However, Food and Liquor gross margins improved reflecting improved buying and shrinkage control and the benefit flowing from the reduction of direct store deliveries. The reduction in direct store deliveries lowers the costs of goods as suppliers' costs are reduced resulting in improved gross margins.

For the Australian Supermarket division, EBIT grew faster than sales, increasing by 18.7% compared with sales growth of 11.0%. The Australian Supermarket division's EBIT margin increased from 4.19% last year to 4.49% this year, an increase of 30 basis points.

Taverner retail has been included in the Supermarket division and Taverner's hotel operations have been included in our Hotels segment from 6 February 2006. BMG has been consolidated from 1 July 2005, and included in the Supermarkets division are BMG's retail operations with BMG's hotel operations included in our Hotels segment.

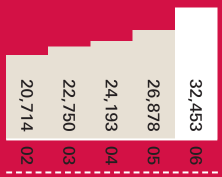
All our existing liquor operations, including Dan Murphy's, BWS and attached liquor, continue to perform well and recorded strong growth in both sales and profits. Total liquor sales for the year were $3.5 billion (FY05: $2.6 billion) which represents the achievement of our medium-term target of $3.5 billion in annual liquor sales earlier than expected.

Dan Murphy's has expanded its operations in the year with 15 stores opened (three of which were in Queensland) bringing the total number of Dan Murphy's stores to 52. We now have the sites and the licenses to have in excess of 100 Dan Murphy's around Australia over the next two to three years. Dan Murphy's provides customers with excellent value for money, extensive product ranging, personalised service and expertise.

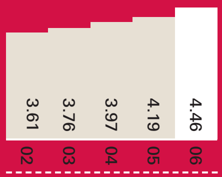
At the end of the year Woolworths Limited had 1,015 liquor outlets.

Financial summary (Australia)	FY05 AGAAP[1]	FY05 AIFRS[2]	FY06 AIFRS[3]	Change AIFRS
Sales ($ million)	26,878	26,878	29,848	11.0%
Gross margin (%)	23.30	23.30	23.01	-29bps
Cost of doing business (%)	19.15	19.11	18.52	-59bps
EBIT to sales (%)	4.14	4.19	4.49	30bps
EBIT ($ million)	1,113.5	1,127.7	1,339.1	18.7%
Funds employed ($ million)	1,782.9	1,897.9	2,155.7	13.6%
Return on funds employed (%)	70.3	69.8	66.1	-3.7%pts

Sales ($m)[4]



EBIT (%)



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Notes

(1)
Includes ALH retail liquor results from 1 November 2004.

(2)
FY05 restated under AIFRS.

(3)
Includes 20 ex-FAL Australian store results from 2 November 2005, ALH retail, MGW retail and BMG retail for the 52 weeks ended 25 June 2006 and Taverner retail from 6 February 2006.

(4)
Includes liquor, petrol and New Zealand supermarkets.

SUPERMARKET STORE NUMBERS (AUSTRALIA)

Financial summary (New Zealand)	FY06 AIFRS[1] (A$)	FY06 AIFRS (NZ$)
Sales ($ million)	2,605	2,930
Gross margin (%)	22.01	22.01
Cost of doing business (%)	17.83	17.83
EBIT to sales (%)	4.18	4.18
Trading EBIT ($ million)	117.4	132.0
Less intercompany charges ($ million)	(8.5)	(9.5)
Reported EBIT ($ million)	108.9	122.5
Funds employed ($ million)	2,115.2	2,532.1

PETROL

For the full year, petrol sales were $4.4 billion, an increase of 32.7% (FY05: 50.7%) which was driven by a combination of higher petrol prices and growth in the number of canopies. Petrol comparable sales increased by 21.6% during the year with comparable volumes having increased 1.3% over the year. In the closing week of the fourth quarter, sales volume reached approximately 76 million litres. As at the end of the financial year, we had 491 petrol stations including 131 Woolworths/Caltex alliance sites. Excluding the alliance sites, we opened an additional 21 petrol canopies during the year.

Petrol EBIT increased 46.7% to $53.1 million reflecting volume growth through new and existing canopies and good cost control at a margin of 1.21%.

Customers highly value the Woolworths discount offer particularly in periods of higher petrol prices.

(1) Represents New Zealand store results from 2 November 2005.

NEW ZEALAND SUPERMARKETS PROGRESSIVE

New Zealand has enjoyed a pleasing post-acquisition performance. We are confident of our ability, working with our New Zealand colleagues, to strengthen and grow this business. New Zealand comparable sales increased by 3.5% in Q3 and by 3.8% in Q4. Overall food inflation in New Zealand was between 1.5% and 2.0%, consistent with prior periods. In New Zealand two new supermarkets have been opened since 2 November 2005. The opportunities that will enhance the performance of the New Zealand business include:

- reducing costs through:
  - obtaining improved buying efficiencies;
  - streamlining support office functions, processes and systems between Woolworths and the current New Zealand business;
  - applying Woolworths' supply chain, inventory management and logistics technology to reduce supply chain costs and practices;
- improving the working capital of the business mainly by better inventory management;
- applying Woolworths' operational expertise to enhance overall performance, through improving store range, merchandising, store layout and in-store execution and by applying fair and consistent pricing – all of which will grow sales;
- investigating the viability in the New Zealand marketplace of introducing new formats including general merchandise, liquor and pharmacy; and
- furthering supplier relationships providing opportunity for Australian and New Zealand suppliers to widen their markets. Several major initiatives are currently underway.

We are pleased to report that each of these initiatives is in progress and we expect to see positive outcomes over the next year. Some improvements in price competitiveness were undertaken during the second half of the financial year. The realisation of all synergies will be over a two to three-year period from date of acquisition.

GENERAL MERCHANDISE

BIG W

BIG W had a solid sales result for the year in a difficult market. Sales for the full year were $3.1 billion, which represents the first time that BIG W sales have exceeded $3 billion, an increase of 7.2% over the previous year (1H06: 7.6%, 2H06: 6.8%).

Comparable sales increase for the year was 1.4%. BIG W's business performance broadly parallels the performance of the national economy with a strong performance in Western Australia and slower performances on the eastern seaboard, in Victoria and particularly New South Wales.

The rebuilding process in Buying and Support functions is well advanced. The personnel and range changes have been largely completed in the soft goods area with pleasing results. Work continues in the hard goods area, however good results are being achieved in the areas already completed.

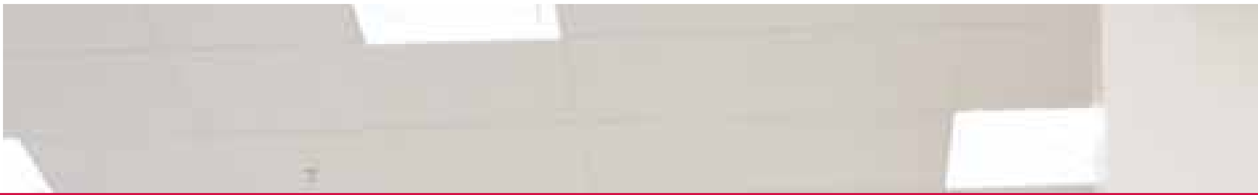
Clearly, interest rate increases and petrol prices are impacting on discretionary spending, however, as indicated, the impact is not consistent across the nation. The current economic circumstances including allowing for the effect of tax cuts are also impacting negatively on certain demographic groups. We anticipate and are planning for discretionary spending to remain constrained for the remainder of FY07.

BIG W continues to remain focused on providing customers excellent value for money through consistent application of our Every Day Low Pricing strategy. BIG W has a substantial price advantage in the marketplace.

Gross margins improved 16 basis points mainly due to a change in sales mix, in particular strong apparel sales. CODB has increased 28 basis points over last year primarily due to the inability to fractionalise costs as a result of lower comparable sales. Inventory levels were well-managed being 2.9 days down on last year.

Nine BIG W stores were opened in the year (1H06: three stores, 2H06: six stores), taking the total number of stores in the division to 129.

(1)
FY05 restated under AIFRS.



Financial summary	FY05 AGAAP	FY05 AIFRS[1]	FY06 AIFRS	Change AIFRS
Sales ($ million)	2,909	2,909	3,119	7.2%
Gross margin (%)	29.79	29.79	29.95	16bps
Cost of doing business (%)	25.73	25.72	26.00	28bps
EBIT to sales (%)	4.06	4.07	3.95	-12bps
EBIT ($ million)	118.0	118.3	123.1	4.1%
Funds employed ($ million)	371.9	355.3	440.2	23.9%
Return on funds employed (%)	33.8	35.5	30.9	-4.6%pts

Stores (no.)

Sales ($m)

EBIT (%)

GENERAL MERCHANDISE

Consumer Ele

An excellent result all round with the division reporting double-digit growth in both revenue and earnings. Sales for the full year reached $1,167 million (15.9% increase on last year) with comparable store sales increasing by 10.1%. After normalising for the negative effect of exchange rate movements in New Zealand dollars (in the last quarter) sales would have increased 16.4% with comparable sales being 10.6%. Sales of plasma and LCD televisions, in-car navigation devices and the MP3/iPod categories have enjoyed healthy growth. During the year, 27 new Dick Smith Electronics, Powerhouse and Tandy stores were opened, with three of those being opened in the fourth quarter taking total stores to 366.

The consumer electronics formats of Dick Smith, Powerhouse and Tandy continue to prove to be an excellent set of formats to take full advantage of the technological evolution that is, and will continue to impact customer demand.

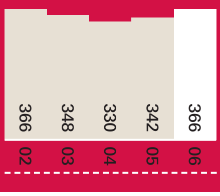
The consumer electronics business continued to provide customers with lower prices reflected by reduction in gross margins by 99 basis points underpinned by continued and significant reductions in the cost of doing business.

Funds employed have increased due to an increase in fixed assets and inventory associated with the new store rollout.

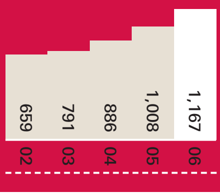
Inventory control was strong with days stock on hand at year end down 0.8 days, compared with the previous year, on sales growth of 15.9%.

Financial summary	FY05 AGAAP	FY05 AIFRS[(1)]	FY06 AIFRS	Change AIFRS
Sales ($ million)	1,007	1,007	1,167	15.9%
Gross margin (%)	30.38	30.38	29.39	-99bps
Cost of doing business (%)	25.24	24.97	23.91	-106bps
EBIT to sales (%)	5.14	5.41	5.48	7bps
EBIT ($ million)	51.8	54.5	64.0	17.4%
Funds employed ($ million)	236.1	236.7	296.8	25.4%
Return on funds employed (%)	22.7	24.0	24.0	–

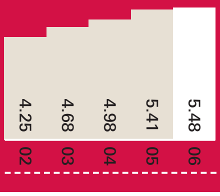
Stores (no.)



Sales ($m)



EBIT (%)



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(1)
FY05 restated under AIFRS.

Financial summary	FY05 AGAAP(1)	FY05 AIFRS(1),(2)	FY06 AIFRS(3)	Change AIFRS
Sales ($ million)	416	416	850	104.3%
Gross margin (%)	82.66	82.69	82.56	-13bps
Cost of Doing Business (%)	69.46	69.99	64.78	-521bps
EBIT to sales (%)	13.20	12.70	17.78	508bps
EBIT ($ million)	54.9	52.8	151.1	186.2%

Hotels

Hotel sales of $850 million represent an increase of 104.3% reflecting good growth in the existing business and the inclusion of BMG for the full 52 weeks and Taverner from 6 February 2006. Comparable sales increased by 3.4% during the year which is a good result considering the initial impact on revenue of the phased implementation of smoking bans in Queensland, with the requirement that two-thirds of all venues be smokefree. Our experience to date in this regard places us in a good position to manage the final phase of smoking bans in Queensland, with all venues being 100% smokefree from July 2006.

Since the acquisitions of ALH, BMG, MGW and Taverner, we have been focusing on repositioning and improving the performance of all operational areas. Comparable gaming revenue continues to grow year on year at 3.1%. Buying margins have and will continue to improve, primarily as a result of moving to Woolworths buying terms.

There have been outstanding improvements in CODB attributable to a number of initiatives implemented post-acquisition, including restructuring and rationalising of support offices and implementation of operating efficiencies at all venues.

EBIT margin of 17.78% is slightly down on the half year margin of 20.0% primarily due to the inclusion of the Taverner Hotel Group that had lower initial EBIT margins. Further improvements in Taverner's EBIT margins are available following on from the business improvements made to date in the rest of the Hotels business.

At the end of the year we had a premium portfolio of 250 hotels, including eight clubs.

(1)
Represents ALH Hotel results from 1 November 2004 to 26 June 2005.

(2)
FY05 restated under AIFRS.

(3)
Represents ALH/MGW/BMG Hotel results for 12 months and Taverner Hotel results from 6 February 2006.

Our focus is:

Refresh

Project Refresh, since its commencement in 1999, has concentrated on a number of initiatives including a major business restructuring program which saw significant changes in the way we do business as well as numerous successful cost reduction programs which continue. Over the past seven years to the end of FY06, Project Refresh has delivered cost savings amounting to 4.51% of sales. Measured in dollars, this was a cumulative saving over the last seven years of $5.3 billion.

Our current focus is on our end-to-end supply chain improvement program. Our supply chain strategy was developed after evaluating systems and logistics features of leading global retailers following which we determined an appropriate and optimum solution for Woolworths. This solution addresses the following key design considerations:

– common integrated systems required to support supply chain operations;
– store supply chain costs (from the supermarket back dock to the shelf);
– Distribution Centre (DC) location and numbers;
– DC function (cross-docking and flow-through);
– composite supply chain (integrating cold and ambient);
– transport management (primary and secondary freight); and
– process improvements across the network.

Woolworths carried out extensive and detailed planning to ensure each initiative would be effective on implementation. The overall plan is broken down into a series of detailed plans which are individually monitored in terms of costs, functionality and timing to ensure all aspects are delivered. Each initiative is on its own a significant improvement. However, the interaction of these initiatives provides greater impetus to the overall project outcomes, benefits and Woolworth's competitive position.

Significant progress has been made to date with implementation now well down the track on many of the major projects which are now approaching their completion phase, a brief overview of which follows.

Project Refresh has significantly enhanced our ability to to plan volumes and stock flow through DCs and stores on a daily basis. This enables greater resource planning and increased productivity.

The technology required to support our new supply chain is critical to its success and was complex in its construction. We have now passed the high risk part of our IT application development and are now applying the systems throughout our company with far better than expected results. The technology and systems are critical in achieving synergies in any supply chain transformation. These systems will have direct application to our recent business acquisitions which will be a critical enabler to deliver our synergies and future growth of these acquisitions.

Our inventory replenishment systems are well-established and embedded in the business. As previously reported, StockSmart (DC forecast based replenishment) has been implemented fully in our DCs and AutoStockR (store forecast based replenishment) has been rolled out to all supermarkets five months ahead of the original schedule and under budget. Further, we have expanded AutoStockR to cover other areas not originally planned because it has been so successful.

We continue to utilise the significant advantages that these systems provide, and more will follow as we complete the rollout of our new Point of Sale technology. This is currently operating in over 300 supermarkets and 50 BIG W stores.

The combination of StockSmart, AutoStockR and our Warehouse Management System has significantly enhanced Woolworths' ability to plan its volumes and flows through both DCs and stores on a daily basis. This provides an enormous opportunity to effectively plan labour inputs, therefore increase productivity and to obtain a higher level of "in" stock performance which adds to customer satisfaction whilst reducing stock levels and costs. This is exactly as planned and in the post-implementation stage is producing actual results exceeding expectations.

Supermarket DCs will be reduced from 31 DCs to nine Regional Distribution Centres (RDCs) and two National Distribution Centres (NDCs). The strategic location of these DCs is imperative in order to optimise network efficiencies. Our Perth RDC was completed ahead of schedule and within budget and is now fully operational. Our RDCs in Adelaide, Wyong, Wodonga and Townsville are fully operational – on time and on budget. All sites are performing well and supported our stores at record service levels. Construction is almost complete on our Brisbane RDC, commissioning has commenced and will be completed in the 2007 financial year, ahead of time and on budget.


EXIDE

In Victoria our chilled and frozen supply chain is under contract with an external provider. Our strategy in Victoria will be reviewed over this period with our learnings from Sydney and Brisbane built into our final solution.

Investment in existing Distribution Centre infrastructure has been undertaken in New South Wales and Victoria to further enhance the future DC network. Both our Mulgrave (VIC) and Yennora (NSW) sites are fully operational as NDCs. Construction work is now complete at our Minchinbury RDC and the new temperature-controlled section of this facility commenced operations in June.

On establishing our RDCs we have exited other sites in Western Australia, South Australia and Townsville. During the last half year we have also exited two sites in Sydney. We will exit other non-RDC/NDC sites in New South Wales and Queensland during 2006/2007. These generally coincide with the termination of the leases as planned.

The rationalisation of DCs, combined with new cross-dock and flow-through processes, supported by new warehouse management systems, will utilise very effectively our site advantages and further reduce costs and stock levels.

Reducing the volume of our direct store deliveries is reducing costs by utilising our DC infrastructure as well as eliminating administration costs.

For stores, the introduction of phased replenishment, store restocking capabilities, along with store-ready unit load devices such as shelf-ready trays and roll cages is reducing overall costs.

Roll cages have been successfully implemented in Western Australia, South Australia and Queensland with expectations having been exceeded. Rollout at our Wyong and Wodonga RDCs has also been completed during the year.

The cost of inbound freight will be reduced by Woolworths' management of inbound freight volumes into our DC and utilising our Transport Management System (TMS) (developed by Woolworths). With the TMS now implemented for primary freight, a new secondary freight system is being piloted to ensure the optimisation of transport loads and routes and visibility of stock in transit at any point in time. Rollout has commenced and is aligned to the commissioning of our new RDCs.

Managing primary freight makes it possible to better manage critical delivery timing into our DCs therefore increasing operational efficiencies and improving safety. Woolworths' transport for inbound freight has been very effective, outperforming industry benchmarks.

We are now capitalising on the intellectual property in logistics and our new supply chain for supermarkets and focusing on our liquor business which has grown rapidly over recent years. We are currently completing our strategy for liquor supply chain, many elements of which are in place.

Woolworths values its relationship with its suppliers and aims to work with them to improve efficiencies across the supply chain to our mutual advantage. The advent of improved technology will further our relationship with our suppliers. We will do this through collaboration with our vendors, sharing information, requesting feedback on areas to improve and by harnessing innovation so that mutually beneficial outcomes are achieved.

Overall our supply chain initiatives are nearing the completion phase. We are moving to full operational implementation with the resulting benefits flowing this year and in the years ahead.

Strategy and Growth

Woolworths' vision is to continue to drive its core retail business, bringing to its customers greater convenience, quality, value, range, freshness and service. Woolworths' strategy to achieve this vision and to continually grow the business is outlined below and is deeply entrenched in the Board and management. The strategies that have driven our growth to date will continue. The strategies are clear and management is focused. The skills and commitment of our experienced retail team will drive our continued success.

Clearly, the focus now is on maximising the benefits from our new technology, supply chain and achieving the synergies from our recent acquisitions. The majority of benefits of recent key initiatives will arise over the next three years.

We will maintain and enhance our long-term cost advantages we have obtained under Project Refresh. Our focus remains on continually enhancing the customer offer rewarding customers with value, range, freshness, service and convenience. We will continue to lay further foundations for sustainable profitable growth. We will further leverage our core capabilities and scale which are clear drivers of growth.

PROJECT REFRESH – LOWER COSTS A KEY ENABLER

Stage 1: Underpinned cost savings to date, prerequisite for stage 2.
Stage 2: Our new logistics system and Distribution Centres provide us with a significant strategic and competitive advantage, which will underpin our ability to reduce costs over the next five years (minimum 20 bps p.a.), benefiting both customers and shareholders. We will leverage this technology and knowledge into other areas of our business such as liquor and Progressive in New Zealand and assist in achieving planned synergies for recent acquisitions.

ACQUISITIONS – BOLT-ONS HAVE AND WILL CONTINUE TO ASSIST IN DRIVING GROWTH

Recent acquisitions comprise FAL, MGW, ALH, BMG and Taverner which all add scale and quality to Woolworths' current business portfolio. Foodland provides a new market with many opportunities and hotels provide us with a new growth segment. All have synergies readily achievable over the next three years.

CONTINUING OPPORTUNITY TO GROW MARKET SHARE

The Australian food, liquor and grocery (FLG) market continues to be highly competitive by world standards. Woolworths' market share of FLG remains below 30%, which is low by world standards.

Independent grocers and speciality food stores hold just under 50%.

DEFINED PLANS TO CONTINUE SPACE ROLLOUT

It is anticipated that Woolworths will add between 15–25 new supermarkets each year and together with expanding existing stores will grow supermarket trading area by more than 3% per annum.

It is intended to add 6–10 BIG W stores each year (6% to 8% space rollout p.a.), up to 15 Dan Murphy's stores each year and continue to rollout consumer electronics.


[yellow tail]

Focus will continue on planned store efficiency improvements e.g. centre of store and better utilisation of space.

Space rollout is supported by detailed plans for the next three to five years identifying specific sites. Minimal cannibalisation is expected.

LEVERAGE SCALE AND STORE DISTRIBUTION

Woolworths has considerable experience and has been successful in introducing new categories and formats such as liquor, petrol, electronics, hotels, Woolworths Select and expanding existing categories e.g. fresh food, digital photo, mobile phones and ATMs. Woolworths considers that there are further opportunities to branch into new formats and categories whilst continuing to expand the existing business.

INCREASED EMPHASIS ON PRIVATE BRANDED GOODS

Woolworths' product range features the major industry brands and a strong private label business. Woolworths Homebrand continues to be Australia's largest selling grocery brand. Woolworths Homebrand is at the leading price point in the market with the best quality at that price point. The new Woolworths Select is a premium range of Woolworths branded product and will be at least equal to or better quality than the existing category leader but at a lower price. Rollout has commenced and has been very well accepted by customers. Woolworths will continue to support, develop and grow national brands.

CONTINUED FOCUS ON IMPROVED IN-STORE EXECUTION AND SERVICE

Woolworths will continue to focus on improving in-store execution, ranging, stock availability and customer service.

GROW NEW INTERNATIONAL INITIATIVES

India
Woolworths has entered into arrangements with the Tata Group to develop a consumer electronics business in India. Woolworths will provide sourcing, wholesaling and some management support. The Tata Group will own and manage the retail operations.

Hong Kong (and India) buying offices
During the year Woolworths established a buying office in Hong Kong to directly source products for distribution in Australia. We currently have approximately 30 people in Hong Kong with plans to grow this office steadily over the next two years.

LEVERAGE WOOLWORTHS' CORE CAPABILITIES

Woolworths has developed expertise in key areas that will be useful to support future growth. These include:
- acquisitions and integration skills;
- world-class IT/supply chain;
- low cost culture;
- retail management expertise – high volume, low margin; and
- key business relationships: Caltex, BMG, Tata.

PERFORMANCE TARGETS

Woolworths targets four key areas of performance measurement for its business in the long term, namely:
- sales will grow in the upper single digits assisted by bolt-on acquisitions;
- EBIT growth outperforming sales growth assisted by cost savings;
- EPS growth outperforming EBIT growth assisted by capital management; and
- maintenance of its targeted credit ratings.

Woolworths' long-term objective is for EPS growth to outperform EBIT growth. However, when Woolworths undertakes major acquisitions which result in the need to defer its normal ongoing capital management initiatives for a period of time, EPS growth in relation to such periods will not outperform EBIT growth.

FOODLAND ACQUISITION

In the latter part of the first half, Woolworths acquired Foodland Associated Limited's New Zealand business (Progressive) plus 20 Australian ex-FAL stores. The 20 stores were carefully selected and complement the Woolworths store network. The acquisition value was approximately $2.6 billion. Woolworths obtained control on 2 November 2005.

BMG ACQUISITION

On 1 July 2005, ALH Group Pty Ltd acquired 26 hotels and eight club management contracts previously owned by interests associated with Bruce Mathieson for $199.2 million in cash and 191.7 million shares issued at a price of $1 per share.

TAVERNER ACQUISITION

ALH Group Pty Ltd acquired 100% of the shares of the Taverner Hotel Group for an enterprise value of $377.1 million effective 6 February 2006. The acquisition brought with it 33 hotels throughout Victoria, South Australia and New South Wales further enhancing the portfolio of hotel assets in the Group.


Primavera
Calabrese

Woolworths currently sets its capital structure with the objective of minimising its weighted average cost of capital whilst retaining a flexibility to pursue growth and capital management opportunities. Consistent with this objective, Woolworths has targeted, achieved and maintained its credit ratings of A- from Standard & Poor's and A3 from Moody's Investor Services

Capital Management

CAPITAL RETURNS

To the extent consistent with these objectives and target ratings, Woolworths undertakes capital return strategies that seek to increase EPS and distribute franking credits to shareholders, mainly through ordinary dividends and share buybacks. Over the past eight years, over $4,700 million, comprising off and on-market buy-backs and dividends, has been returned to shareholders (including the final dividend for the financial year ending 25 June 2006). Woolworths' capital management strategy has enhanced EPS growth whilst allowing Woolworths to take advantage of growth opportunities, such as the ALH and FAL acquisitions. Woolworths will re-examine opportunities for future share buy-backs once the Progressive New Zealand integration is further advanced. Franking credits available for distribution as at 25 June 2006 amounted to $613.1 million (prior to final dividend).

SHARE ISSUANCE

To assist in strengthening the balance sheet and to maintain current credit ratings during a period of major acquisitions, integration and business change, Woolworths has entered into an underwriting agreement in connection with the WOW DRP which ensures that an amount equal to 100% of all interim and final dividends payable in the calendar years 2005 and 2006 is subscribed for Woolworths shares.

Also during the year Woolworths issued 81.6 million shares in respect of the acquisition of FAL. In addition shares were issued under employee option plans.

DEBT RAISINGS

Four significant debt transactions were undertaken during the year, which are detailed below.

These transactions locked in low levels of interest rates, provided staggered maturities to assist in refinancing flexibility in the future and provided broader sources of funding in different markets.

1 Medium Term Notes of A$300 million were issued in September 2005 into the domestic market with a maturity date of 27 September 2008.

2 Senior Notes totalling US$725 million (A$991.8 million) were issued in November 2005 into the US bond market under Rule 144A (Regulation S). US$300 million (A$410.4 million) matures on 15 November 2011 and US$425 million (A$581.4 million) matures on 15 November 2015.
3 Medium Term Notes of A$350 million were issued in March 2006 into the domestic market with a maturity date of 14 March 2011.
4 An offer of new securities called Woolworths Notes raised A$600 million on 5 June 2006. Woolworths Notes are quoted under ASX code WOWHB. The Woolworths Income Notes (WINs) were redeemed on 5 June 2006.

SALE AND LEASEBACK OF DISTRIBUTION CENTRES

On 14 June 2006 it was announced that Woolworths had entered into arrangements to sell and leaseback 11 Distribution Centres for $846 million. This transaction is a good outcome for all parties and it provides Woolworths with the flexibility to alter and adapt its DCs to meet changing operational requirements over time. $547 million of the sales proceeds was received in July 2006 with a further $94 million due to be received by December 2006 (Perth, Townsville) subject to lease consents. The balance of $205 million is comprised of $180 million to be received for Brisbane by March 2007 and $25 million to be received for Yennora, at Woolworths' option, by June 2007.

BALANCE SHEET AND CASH FLOW

Inventory at year end increased by 17.6% on a sales increase of 20.4%. This translates to a 1.3 day reduction (excluding Progressive and Taverner).

Our cash flow and balance sheet remain strong following the acquisition of ALH, FAL, BMG and Taverner. Cash generated by operating activities was $1.7 billion up 40% on the prior year reflecting strong earnings growth and benefits from working capital management.

Property, plant and equipment has increased from $3,359.3 million to $4,079.6 million. This is mainly due to fixed assets acquired as a result of the acquisition of FAL and BMG, the fitout of the new Distribution Centre network as part of our supply chain initiatives and new store rollout.

Intangibles have increased from $2,046.4 million to $4,756.6 million. This increase has been driven by the acquisitions in the first half year of BMG and FAL resulting in the acquisition of liquor and gaming licences ($125.0 million), brand names ($244.7 million) and goodwill ($2,126.9 million). In the second half, the Taverner acquisition resulted in additional liquor and gaming licences ($200.0 million) and goodwill ($138.6 million). Offset against these increases was a decline in the value of intangibles in FAL New Zealand owing to movements in the New Zealand dollar ($242.1 million), which is recorded in the foreign currency translation reserve.

Trade creditors and other creditors have increased as a result of a combination of business acquisitions, the increase in inventory and general business growth.

Net repayable debt has increased by $1,387.4 million to $3,799.5 million primarily as a result of debt acquired to fund the acquisitions and ongoing operations of the business.

ROFE declined in the FY06 period mainly as a consequence of the acquisitions of FAL and Taverner. Funds employed are included in full, however the EBIT arising from these acquisitions will relate to part of the year only (FAL from 2 November 2005, Taverner from 6 February 2006).

CENTRAL OVERHEADS, NET PROPERTY INCOME AND TAX EXPENSE

With respect to the full year, central overheads have increased by $9.2 million. The key factors causing the increase primarily relate to CEO retirement payments and costs associated with the expansion into India.

Net property income was $18.3 million which is slightly less than last year.

Tax expense is 30.3% up from 29.1% last year primarily due to inclusion of Progressive New Zealand where the tax rate is 33%.

FUTURE OUTLOOK

We anticipate overall Group sales growth for FY07 to be in the range of 8% to 12%. We also anticipate that EBIT will continue to grow faster than sales in FY07.

Net profit after tax for FY07 is expected to grow in the range of 16% to 21%.

Our long-term EPS objective is to outperform EBIT growth, assisted by capital management. However, in FY07 EPS will be impacted by shares issued under the Group's employee share option plans, on acquisition of FAL and under the Dividend Reinvestment Plan underwriting arrangements.

This guidance is given subject to current retail trading patterns and the present business, competitive and economic climate continuing.

We anticipate overall Group sales growth for FY07 to be in the range of 8% to 12%. We also anticipate that EBIT will continue to grow faster than sales in FY07.

Net profit after tax for FY07 is expected to grow in the range of 16% to 21%.

Peo

Meni Violentis
Woolworths
Store Manager
'Helping staff reach their full potential is something I'm really passionate about. Ultimately, if our staff are happy then our customers are happy.'

You can count on Woolworths' people to deliver the right result. Whether it's delivering great service to our customers or great support to our stores, every contribution of every team member counts towards the continued success of the business.

Jessica Thiel
Sydney National Distribution Centre
Receiving Clerk
'When we converted to a National Distribution Centre as part of Project Refresh, a number of new systems were introduced. The result has been improved efficiencies that have enabled us to increase the number of pallets we accept each day from 1,000 to 1,600!'

ple

Tim Hunt
Woolworths
Liquor Assistant
Business Manager
'Over the past 12 months, we have been working closely with local growers and producers to source an exclusive collection of wines, now known as the Baily & Baily range. Customers are loving the quality and affordability.'

The Woolworths Hong Kong buying office opened for business, creating employment and opportunity for local residents.

We welcomed 20,000 new colleagues to the family as part of the integration of PEL in New Zealand, taking our total number of employees to 175,000.

We also effected the smooth transition of 3,000 people to our new Distribution Centre network – a remarkable achievement.

Thousands of employees across the country, in all divisions, continued to receive training and accreditation through the Woolworths Academy.

Traineeships and apprenticeships continued to play an important role in developing the young people in our business with almost 4,000 currently involved in these programs.

2,600 people made the move to the new support office at Norwest in Sydney.

ACHIEVEMENTS DURING 2006

Patrick Prasad
BIG W Store Manager
'In preparation for the opening of our new store we took on 200 employees from the local area. Many had never worked in retail before but seeing everyone come together as a team in such a short period of time has been incredibly satisfying.'

Sayed Zalloua
Woolworths Meat Apprentice
'If I'm not serving customers, I'm out the back learning the trade. Each day I cut, dice and slice more than one hundred different fresh meat products – that 25,000 a year. There are 500 other young meat apprentices at Woolies. We all do our bit!'

As a major retailer, employer, customer and corporate citizen, Woolworths' imprint touches the community in a multitude of ways.

Being Responsible

Socially, economically and environmentally, Woolworths is working hard to maximise the many positive benefits of our business through effective leadership and the development of best practice policies.

In 2006, Woolworths released its first-ever Corporate Social Responsibility report as part of an ongoing commitment to achieving greater transparency across these particular areas of our operations. The detailed report is available online at www.woolworthslimited.com.au.

Reducing our environmental impact
Woolworths is committed to reducing its environmental footprint through a wide range of initiatives that tackle our key areas of impact – energy consumption, waste management, packaging, fuel consumption and hazard management. We will continue to seek ways in which we can improve our performance and take an active lead on issues of environmental concern.

In 2006 we:

- saved 3% of electricity costs via our Energy Management lighting system (EMS);
- achieved validation of our NSW Greenhouse Gas Abatement Certificate (NGAC) scheme in the 2005 audit and received the full complement of NGAC's allocated to our business for energy reduction;
- continued to undertake energy efficiency activities involving our bakery ovens and chicken cookers, as well as the installation of power factor correction units in stores;
- became a willing participant in the Federal Energy Efficiency Opportunities program. This requires auditing and reporting on energy efficient activities across the entire business over a five-year period;

– designed our Norwest support office to Ecologically Sustainable Development standards, complete with energy efficient systems, recycling programs and a one million litre water tank;
– utilised energy efficient equipment including heat reclaim systems for refrigeration, HCFC in air conditioning systems and T5 lighting in all our supermarkets;
– commenced trials of a state-of-the-art carbon dioxide refrigeration system in a new supermarket in NSW;
– introduced a new green waste project, where supermarkets' organic waste is collected and processed to produce green energy, which is then sold in the national electricity market;
– accelerated cardboard, polystyrene and plastic recycling initiatives with increased education and awareness programs;
– established programs to minimise polystyrene use in the entire business;
– helped to achieve a reduction of 45% in the annualised rate of plastic checkout bags issued, as a member of the Australian National Retailers Association (ANRA). We have also established a Plastic Bags Task Force with the Federal Department of the Environment and representatives from other State Governments and industry bodies, to seek to identify environmentally sound and commercially feasible degradable alternatives to the current high density polyethylene bags used by supermarkets across Australia;
– minimised the amount of water run-off to the protected wetlands adjoining Wyong Distribution Centre, by constructing swales to control the flow of water into the wetlands, preventing flooding and reducing the impact to the habitat of a protected and endangered frog species;
– constructed the roofs of our Distribution Centres (DCs) so that water can be harvested into tanks for use in the day-to-day operations of the DC (e.g. flushing toilets, reticulation);
– commissioned an independent waste management strategy, using Wyong DC as a sample study, in order to identify waste management opportunities to be used in all of Woolworths DCs; and
– commissioned an independent energy audit at Wyong DC to identify energy efficiency opportunities. Recommendations are currently being developed into action plans ready for implementation across all Woolworths DCs.

In 2006 we helped to achieve a reduction of 45% in the annualised rate of plastic checkout bags issued, as a member of the Australian National Retailers Association (ANRA).

Putting safety and health first

Safety is a core value at Woolworths and whilst our business priorities may change, this value remains constant. While we still have much to achieve, our businesses have taken a major step forward in 2006 in embedding the principles of safety leadership into our activities.

The need to increase safety awareness and reduce at-risk behaviours is integral to achieving our safety vision. Effective safety leadership is crucial to the success of our safety programs. In this regard we are in the process of implementing our leadership program, "Safety the Woolworths Way".

In striving to maintain our Safety and Health vision of ensuring we go home from work without injury or illness, Woolworths achieved the following business improvements in 2006:
– Lost time injury frequency rates were reduced by 10%.
– Workers compensation claims were reduced by 8%.
– To assist in the development of our leaders we have engaged Dr E Scott Geller, Professor of Physiology from Virginia Tech University in the US to conduct seminars for our Leadership Teams and Store Managers.
– To address the high number of bandsaw related injuries in our meat departments we were instrumental in designing, developing and implementing a guarding solution which has contributed to an injury reduction of over 70% across Australia.
– We implemented a Group-wide central safety and compensation reporting and database system, STARS. The system has provided additional rigour and consistency to our overall performance reporting and data management processes which will contribute to improvements in incident analysis and risk mitigation.

Sustaining local producers

Woolworths fully understands the importance of maintaining the long-term viability of rural and regional communities both in Australia and New Zealand. Essential to this is the management of a sustainable domestic agricultural industry. Woolworths is a major customer of Australian and New Zealand farmers, growers and producers and we work hard to provide them with the best supply opportunities that we can. In 2006 we:
– purchased over 97% of our fresh produce from domestic farmers, growers and producers;
– positively discriminated in favour of domestic

manufacturers when tendering Private Label contracts. We have a long history of supporting Australian producers, with our move into the New Zealand market we have commenced initiating similar programs in support of New Zealand suppliers; and
– continued to pursue our extensive import replacement program to help local growers and farmers develop domestically grown products that reduce the need to import. In 2006, we further expanded our Australian garlic initiative and were able to launch an all natural and all Australian garlic paste for the full year – the only Australian product of its kind on the market.

Doing business with integrity
A sense of integrity is ingrained in the Woolworths culture. We are committed to always being fair, respectful, responsible and transparent in all our dealings with colleagues, customers and suppliers. Right across our business, we abide by voluntary codes of conduct in relation to supplier trading relationships. Woolworths also continues to make significant investment in compliance programs and works closely and proactively with regulators and industry authorities to help improve industry practices and community standards.
In 2006 we:
– established a Group compliance function which is independent of the trading divisions and support functions and will implement a formal review, monitoring and reporting of all compliance obligations across the Group. We have commenced this major cross-divisional project and have identified the significant number and variety of compliance requirements throughout the business and will be preparing compliance programs for each of the trading and non-trading functions which will provide reports to senior management and the Audit, Risk Management and Compliance Committee and to the Board on a regular assurance basis as well as in relation to individual non-compliance incidents;
– extended our Country of Origin product labelling beyond mandatory requirements and worked in close consultation with FSANZ to trial and evaluate new industry-wide guidelines; and
– as an inaugural member of the Produce and Grocery Industry Code of Conduct, which was established by the Federal Government in 2000, we participated in a major review of the Code which was aimed at providing a forum for the resolution of disputes between suppliers, wholesalers and retailers in the produce and grocery sectors. The review has resulted in the expansion in the members of the Council administering the Code and in particular in broadening the primary producer representation ensuring that the Code can assist in resolving supplier related issues on a non-formal, efficient and expeditious basis.

The Melbourne 2006 Commonwealth Games was enjoyed by 3,000 Victorian schoolchildren, thanks to Woolworths.

The Fresh Future fundraising campaign runs annually in all Woolworths supermarkets, raising millions of dollars each year for children's hospitals and wards across Australia. The money pays for essential equipment and helps to fund vital medical research.

Creating a better life for Australian families

Woolworths is an integral part of hundreds of local communities right across Australia. Our objective is to be a good neighbour in every possible way and to support those communities that support our stores. In 2006 we:

- brought 3,000 Victorian schoolchildren to the Commonwealth Games in Melbourne;
- raised over $4 million for children's hospitals and wards across Australia;
- responded swiftly to support victims of Cyclone Larry in cash and in kind, helping to rebuild homes and businesses;
- arranged for 250 inspiring Australians to visit rural and regional communities on Australia Day;
- delivered the 'Harmony Day' message of multiculturalism and tolerance to over 300 communities across the country; and
- channelled significant funds back into every community in which we have a supermarket via donations to thousands of local schools, charities and community groups.

BOARD OF DIRECTORS

James Alexander Strong

Chairman. Member Corporate Governance Committee, Member Audit Committee and People Policy Committee.

Mr Strong is currently Chairman of Insurance Australia Group Limited (IAG), Rip Curl Group Pty Ltd and the Australia Council for the Arts. He was also appointed a Director of Qantas Airways Limited in 2006. Mr Strong is also a member of the Board of various sporting organisations.

He was the Chief Executive and Managing Director of Qantas Airways Limited until March 2001, and previously the Chief Executive of Australian Airlines Limited, Managing Partner and National Chairman of Corrs Chambers Westgarth Solicitors and Group Chief Executive of DB Group Limited (New Zealand). He was appointed a Director of Woolworths Limited in March 2000 and Chairman in April, 2001. Age 62.

Roger Campbell Corbett
AM, BCom, FAIM

Group Managing Director and Chief Executive Officer, Member Board of Trustees, Woolworths Group Superannuation Scheme.

Mr Corbett was appointed Group Managing Director and Chief Executive Officer in January 1999, having been Chief Operating Officer since July 1998, Managing Director Retail since July 1997 and Managing Director of BIG W since May 1990.

Mr Corbett has had more than 40 years' experience in retail and was previously Director of Operations and a Director of David Jones (Australia) Pty Limited as well as Merchandising and Stores Director and a Director of Grace Bros. Mr Corbett was appointed a non-executive Director of Fairfax Holdings Limited in February 2003.

He was appointed to the Board of the Reserve Bank of Australia in December 2005. In May 2006 Mr Corbett was presented with the B'nai B'rith (Australia New Zealand) Gold Medal. Mr Corbett was appointed a Director of Woolworths Limited in 1990. Age 64.

Michael Gerard Luscombe

Chief Operating Officer.

Mr Luscombe is a graduate of Monash University and Monash Mt Eliza Business School. In 1992, as a graduate of the Victorian Community Leadership Programme, he was made a Williamson Fellow.

Mr Luscombe is a lifelong employee of Woolworths. His career extends over twenty-eight years starting as a Management Trainee in Woolworths Victoria.

He was appointed Chief Operating Officer in June 2006, having been Director of Supermarkets since September 2004. Prior to that Mr Luscombe held positions as Chief General Manager Supermarkets, Buying & Marketing, General Manager Supply Chain, General Manager Buying Long Life Products for Supermarkets, Safeway Merchandising and Marketing Manager, Senior Category Manager, Safeway Retail Operations Manager, Area Manager, Training and Development Manager, and Store Manager.

Mr Luscombe will be succeeding Mr Roger Corbett as Chief Executive Officer on 1 October 2006. He was appointed a Director of Woolworths Limited in June 2006. Age 53.

Adrienne Elizabeth Clarke
AC, PhD, FAA, FTSE

Member, People Policy Committee and Member, Corporate Governance Committee.

Professor Clarke is a Director of Fisher & Paykel Healthcare Corporation Limited since November 2001, Tridan Limited since July 1988 and Hexima Limited since March 1988. She is Laureate Professor at the University of Melbourne with a distinguished record of achievement in the Sciences of Botany and Biology. She was previously Lieutenant-Governor of Victoria (1997–2000), a Director of WMC Resources Limited (1996–2005), Chair of the CSIRO Board (1991–1996) and a Member of the Prime Minister's Supermarket to Asia Council (1996–2001) and a Member of the Federal Government's Trade Policy Advisory Group. Professor Clarke was appointed a Director of Woolworths Limited in July 1994. Age 68.

John Astbury
FAICD

Chair, Audit Committee and Member, Corporate Governance Committee.

Mr John Astbury is also a Director of AMP Limited since September 2004 and of IAG Limited since July 2000. He was previously Finance Director of Lend Lease Corporation Limited and a Chief General Manager, National Australia Bank Limited. He had a long career in banking and financial services in both the UK and Australia.

Mr Astbury was appointed a Director of Woolworths Limited in January 2004. Age 62.

Diane Jennifer Grady
BA (Hons), MA, MBA

Chair, People Policy Committee (Ms Grady retired from the People Policy Committee in August 2006) and Member, Audit Committee and Corporate Governance Committee.

Ms Grady is also a Director of Bluescope Steel Ltd since May 2002, and Wattyl Limited since December 1994 and has served on Boards of a number of public and not-for-profit organisations since 1994. Previously Ms Grady was a partner at McKinsey and Co. where she led the firm's Retailing and Consumer Goods practice in Australia. In that capacity, she advised retailing clients internationally on strategic, organisational and operational issues and assisted major consumer goods companies in Australia to develop strategies for their retail accounts. Globally, Ms Grady was a worldwide leader of McKinsey's Change Management and Organisation Practice. She was appointed a Director in July, 1996. Age 58.

Leon Michael L'Huillier
BCom (Hons), MBA, MPhil

Member Audit Committee, Member Corporate Governance Committee and Chairman of Superannuation Policy Committee.

Mr L'Huillier is a Director of ALH Group Limited and Chairman of its Audit Committee. He is Chairman of Repco Corporation Limited since March 2006 and a director since January 2002.

He is an experienced Chief Executive and Company Director in the grocery manufacturing and liquor industries, most recently as the CEO of Lion Nathan Australia. He has substantial experience as an independent director of major organisations in distribution and logistics, property, accounting and financial services. He was previously a Chairman and Chief Executive of the Transport Accident Commission, a Director of MPG Logistics, and former Chairman of the Australian Prime Property Fund, a major retail shopping centre group. He is a former Director of MLC Limited, and Challenge Bank Limited. He was appointed a Director in September 1997. Age 63.

Roderick Sheldon Deane
PhD, BCom (Hons), FCA, FCIM, FNZIM.

Dr Deane has an honorary LLD from Victoria University of Wellington. Member People Policy Committee (Dr Deane became Chair of the People Policy Committee in August 2006) and Corporate Governance Committee.

Dr Deane is the Chairman of Fletcher Building Limited, and of the New Zealand Seed Fund. Dr Deane is a board member and Patron of New Zealand's largest charitable organisation, the IHC, and a Trustee of MOTU, an economic and social policy research group. He was previously Chairman of Telecom Corporation of New Zealand Limited, Chairman of Te Papa Tongarewa (The Museum of New Zealand), Chairman of ANZ National Bank Limited, a Director of ANZ Banking Group Limited, Chief Executive of the Electricity Corporation of New Zealand Limited, Chairman of the State Services Commission, Deputy Governor of the Reserve Bank of New Zealand, and Chairman of the City Gallery Wellington Foundation.

He was appointed a Director of Woolworths Limited in April 2000. Age 65.

SENIOR MANAGEMENT

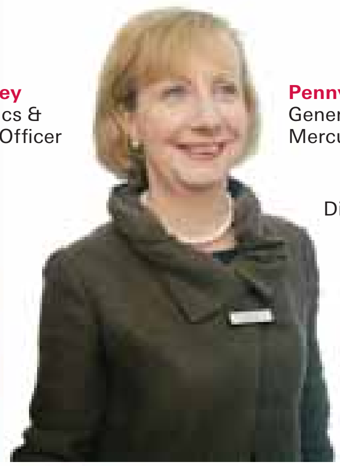
Roger Corbett
Chief Executive Officer

Michael Luscombe
Chief Operating Officer

Tom Pockett
Chief Financial Officer

Julie Coates
Director of
Human Resources

Steve Bradley
Chief Logistics &
Information Officer



Penny Winn
General Manager
Mercury

Barry Neil
Director of Property

Peter Horton
Group General Counsel
& Company Secretary

Avner Nahmani
General Manager
Corporate Marketing

Rohan Jeffs
General Manager
Compliance

Naum Onikul
Director of Supermarkets

Greg Foran
General Manager
BIG W

Bruce Mathieson
CEO ALH Group

Alvin Ng
General Manager
DSE

Grant O'Brien
General Manager
Freestanding Liquor

Marty Hamnett
Managing Director
PEL, New Zealand

Ramnik Narsey
General Manager
Petrol

Peter Smith
General Manager
Supermarket Operations

Richard Umbers
General Manager
Buying & Marketing

DIRECTORS' STATUTORY REPORT

This Report is given by the Directors in respect of Woolworths Limited (the Company) and the consolidated entity consisting of the Company and the entities it controlled (the Group) for the financial period ended 25 June 2006.

THE DIRECTORS

The persons who have been Directors of the Company at any time during or since the end of the financial period and up to the date of this Report are:

J A Strong Chairman
R C Corbett Group Managing Director and Chief Executive Officer (retiring 30 September 2006)
J F Astbury
A E Clarke
R S Deane
D J Grady
L M L'Huillier
M Luscombe[(1)]

Details of the experience, qualifications, special responsibilities and other directorships of listed companies in respect of each of the Directors are set out against their respective names from pages 36 to 37.

COMPANY SECRETARY

Mr Peter John Horton BA LLB.

Mr Peter Horton joined Woolworths in November 2005 as Group General Counsel and Company Secretary. Previously Mr Peter Horton was General Manager Legal and Company Secretary at WMC Resources Limited.

PRINCIPAL ACTIVITIES

The principal activities of the Group during the period consisted of food, liquor, petrol, general merchandise and consumer electronics retailing through chain store operations, together with hotel, gaming and entertainment operations.

During the year, the Company completed the acquisition of Foodland Associated Limited (FAL) with stores in both Australia and New Zealand. In addition, the Company completed the acquisition of BMG and the Taverner Hotel Group which were integrated into the Group with the assistance of the ALH Group covering hotel management, gaming and entertainment.

CONSOLIDATED RESULTS AND REVIEW OF OPERATIONS

The net amount of consolidated profit for the financial period after income tax expense and Woolworths Income Notes (WINs) distributions attributable to members of the Company and its controlled entities was $1,014.6 million (2005: $816.2 million).

A review of the operations of the consolidated entity and its principal businesses during the financial period and the results of those operations are set out in the Chairman's Report and the Group Managing Director's Report from pages 3 to 16 inclusive.

DIVIDENDS

The amounts set out below have been paid by the Company during the financial period or have been declared by the Directors of the Company, by way of dividend, but not paid during the financial period up to the date of this Report. All dividends were fully franked at the tax rate indicated.

	Franking tax rate %	*Dividend cents/share*	*Total paid/payable $m*
Final 2005 Dividend Paid on 7 October 2005	30	27	287.2
Interim 2006 Dividend Paid on 28 April 2006	30	28	326.0
Final 2006 Dividend Payable on 6 October 2006	30	31	367.1

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Other than as referred to in the Group Managing Director's Report, the significant changes in the state of affairs of the Group during the financial period were as follows:

A net increase in the issued share capital of the Company of 120,437,733 fully paid ordinary shares as a result of:

(i) the issue of 81,592,586 fully paid ordinary shares to shareholders of FAL on 24 November 2005 as part of the consideration for the acquisition of all the issued shares in Progressive Enterprises Holdings Ltd (PEH Shares). The PEH Shares were acquired by a wholly-owned subsidiary of Woolworths Limited (WOW), Woolworths (NZ) Supermarkets Limited under a scheme of arrangement.

(ii) the issue on 7 October 2005 of 17,990,513 fully paid ordinary shares and the issue on 28 April 2006 of 17,650,083 fully paid ordinary shares pursuant to the Dividend Reinvestment Plan and the Dividend Reinvestment Plan Underwriting Deed in respect of the 2005 final dividend and the 2006 interim dividend respectively;

Note

(1)
Mr Luscombe became a Director effective 1 June 2006 and is currently Chief Operating Officer. Mr Luscombe will become Group Managing Director and Chief Executive Officer effective 1 October 2006.

(iii) the issue on various dates, for cash at the relevant exercise price, of 3,204,551 fully paid ordinary shares as a result of the exercise of options held by a number of executives under the Executive Option Plan (EOP).

On 1 July 2005, 6,906,300 options were granted under the EOP.

There were no issues of fully paid ordinary shares pursuant to the Employee Share Plan or to the Employee Share Issue Plan made during the financial period.

As at 25 June 2006, there were 94,408 (2005: 79,311) full-time equivalent employees of the consolidated entity and 71,407 (2005: 72,834) employed by the Company.

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL PERIOD

Except for the matters disclosed below, in the Chairman's Report and the Group Managing Director's Report from pages 3 to 16, there is, at the date of this Report, no other matter or circumstance which has arisen since 25 June 2006 that has significantly affected or may significantly affect the Group's operations, the results of those operations or the state of affairs of the Group in future financial periods.

Final dividend

On 21 August 2006, the Directors declared a final dividend of 31 cents per share, fully franked at the 30% tax rate, on each of the issued ordinary shares of the Company. The final dividend is payable on 6 October 2006.

Grant of options

On 1 July 2005, 6,906,300 options were granted under the EOP. Between 25 June 2006 and 22 September 2006, 2,759,053 shares were allotted as a result of the exercise of options granted under the EOP in July 1999.

DIRECTORS INTERESTS IN SHARES/OPTIONS

Particulars of Directors' relevant interests in shares in the Company as at 22 September 2006 are set out below:

Director	*Relevant Interest*
J F Astbury*	10,912
A E Clarke	41,932
R C Corbett	293,165
R S Deane*	40,000
D J Grady	34,670
L M L'Huillier*	60,000
J A Strong	70,479
M Luscombe	408,290

* These relevant interests include superannuation fund, trust, joint or other ownership structure, as appropriate.

MEETINGS OF DIRECTORS

The table below sets out the number of meetings of the Company's Directors (including meetings of Committees of Directors) held during the financial period ended 25 June 2006 and the number of meetings attended by each Director. The Board has previously determined that in order to deal effectively with all of the matters requiring its consideration, including ongoing strategic issues, five of the Board meetings were held over two days. In addition to attending formal Board and Board Committee meetings, the Directors undertake other duties including attending strategic review sessions, retail market study trips, as well as Board and Board Committee Meeting preparation and research. These additional responsibilities constitute a further significant time commitment by Directors.

The Superannuation Policy Committee was established on 6 June 2006. No meetings of the Superannuation Policy Committee took place in the financial year ended 25 June 2006.

	Meetings of Directors whilst a Director Attended/Held	*Meetings of Audit Committee Attended/Held*	*Meetings of Woolworths Group Superannuation Attended/Held*	*Meetings of Personal Policy Committee Attended/Held*	*Meetings of ad hoc Committee(5) Attended*
A E Clarke(2,3)	9/10	–	–	5/5	–
R C Corbett	10/10	–	1/5	–	3
R S Deane(2,3)	10/10	3/3	–	2/2	–
D J Grady(1,2,3)	8/10	1/1	–	5/5	1
L M L'Huillier(1,3,4)	10/10	4/4	–	–	2
J A Strong(1,2,3)	10/10	4/4	–	4/4	4
J F Astbury(1,3)	10/10	4/4	5/5	–	–
M Luscombe	0/0	–	–	–	–

Notes

(1)
Member Audit Committee.

(2)
Member People Policy Committee. Ms Grady retired as Chair and from the Committee in August 2006.

(3)
Member Corporate Governance Committee.

(4)
Chair of the Board of Trustees of the Woolworths Group Superannuation Scheme.

(5)
These are meetings of ad hoc Committees which attended to special matters on behalf of the Board and meetings of Directors held by circular resolution.

1 INTRODUCTION

At Woolworths, all of our employees play an important role in delivering the Company's financial performance and our remuneration policies have been developed to provide market competitive remuneration in order to sustain Woolworths' competitive advantage and protect the interests of shareholders.

Woolworths recognises that remuneration is an important factor in attracting, motivating and retaining talented employees, in conjunction with other elements of our approach to people management. The Woolworths Academy provides training and development for employees to learn and develop the skills they need to succeed in their current roles and the development opportunities to enable them to reach their full potential. Effective succession planning includes promotion and appointment of employees to new challenges within the business.

Woolworths has an achievement and performance-oriented culture which our remuneration policies drive and support. In recognising the importance of our people to our success, in excess of 37,000 current Woolworths' employees participate in various equity-based schemes, sharing in the Company's success and aligning their experience with that of other shareholders.

2 REMUNERATION POLICY

Remuneration policy is aligned with both our financial and strategic business objectives and recognises that people are a major contributor to sustained improvements in performance.

Woolworths' remuneration policy for all executives ensures:

- remuneration is market competitive and designed to attract, motivate and retain key executives;
- demanding performance measures are applied to both short and long term "at risk" remuneration;
- short term performance is linked to both financial and non-financial performance measures; and
- long term performance is measured through creation of shareholder value.

Company protection and employment stability is provided through pre-established employment agreements limiting the amount of termination payments and providing for restrictive covenants on any future employment by competitors.

2.1 Role of the People Policy Committee

The Committee works closely with management to review processes and programs to ensure Remuneration Policy is implemented. Accordingly, management provides the Committee independent external advice on key remuneration issues, as required. The Committee acts on behalf of the Board and shareholders to ensure that in relation to its human resources, the Company:

- establishes and implements a human resources strategy to ensure that appropriately talented and trained people are available to achieve the Business Strategy;
- undertakes the appropriate performance management, succession planning and development activities and programs;
- provides effective remuneration policies having regard to the creation of value for shareholders and the external remuneration market;
- provides a safe working environment for all employees;
- complies with all legal and regulatory requirements and principles of good governance; and
- reports to shareholders in line with required standards.

Membership of the Committee consists of three independent non-executive Directors. At the date of this Report, members are Roderick Deane (Chair, previously Diane Grady), James Strong and Adrienne Clarke. The members' attendance at Committee Meetings is set out on page 41.

3 EXECUTIVE REMUNERATION INCLUDING EXECUTIVE DIRECTORS

3.1 Overview

Woolworths' current remuneration structure is comprised of two components:

- fixed remuneration which is base salary, superannuation contributions and where appropriate, the use of a fully maintained motor vehicle; and
- the variable or "at risk" component which is performance-based and comprised of a cash-based Short Term Incentive Plan (STIP) and a Long Term Incentive Plan (LTIP).

The total remuneration package of all executives is designed to ensure an appropriate mix of fixed remuneration with short and long term incentive opportunities. The relative weighting of fixed and variable components, for target performance, varies with role level and complexity. Generally, the proportion of remuneration "at risk" increases with organisation responsibility and accountability level. Woolworths requires a significant proportion of senior executives' total potential reward to be at risk to reward performance in both the short and long term. To ensure alignment between the Company performance and individual performance, Woolworths aims to position all senior executives' remuneration at:

- the median of the relevant market for fixed remuneration; and
- the third quartile of the relevant market for total remuneration for outstanding performance.

Woolworths targets the mix of fixed and variable remuneration as follows:

	Percentage of total target remuneration		
	Fixed remuneration %	*Target short-term incentive (STIP) %*	*Target long-term incentive (LTIP) %*
Direct reports to CEO	40	30	30
Other senior executives	60	20	20

Specific arrangements exist for the CEO which are described in Section 3.5 Executive Service Agreements. These specific arrangements may vary from the general principles outlined in the following sections.

3.1.1 Fixed remuneration

The amount of base salary is determined by reference to independent research considering the scope and nature of the role and appropriate market rates as well as the executive's individual performance and experience. Base salaries are aligned to the median of the relevant market. Whilst Woolworths conducts annual remuneration reviews, there are no guaranteed remuneration increases contained in Executive Service Agreements. Any increases are determined by individual performance, economic indicators and market data.

3.1.2 Variable "at risk" remuneration

Remuneration that is variable and dependent upon performance is delivered through the STIP and the LTIP.

3.1.2.1 Short Term Incentive Plan (STIP)

The STIP has been structured to ensure that payments are closely aligned to business performance and are designed to:

- deliver Company performance improvements over the prior year;
- provide rewards subject to the achievement of rigorous performance targets; and
- align individual objectives to Company and business-specific objectives.

The STIP provides an annual cash incentive that is based on a maximum percentage of the executive's base salary. The CEO's STIP is calculated up to a maximum percentage of fixed remuneration.

STIP is payable upon the achievement of Woolworths' financial Key Result Areas (KRAs), as well as a component for non-financial or individual performance. Generally the components are weighted 70% to financial KRAs and 30% to non-financial or individual performance. The financial KRAs may be measures such as Sales, Earnings Before Interest and Tax (EBIT), Return on Funds Employed (ROFE) and Cost of Doing Business (CODB). Non-financial measures may include objectives such as reducing staff turnover rates and performance in areas such as safety, shrinkage and food safety compliance ratings. All targets are set at the beginning of the financial year for each business within the Woolworths Group and are measured based on improvements to the prior year.

There are three levels of targeted performance for each measure:

- threshold, which is the minimum improvement to last year's results required to qualify for any incentive payment;
- target, where established performance targets have been achieved; and
- stretch, where performance targets have been exceeded.

The targets and weightings for each measure are adjusted at the beginning of the financial year to reflect the specific financial objectives of each business within the Woolworths Group for that financial year. This results in each executive having a STIP that is directly linked to their individual annual business objectives.

The People Policy Committee reviews annually the ongoing appropriateness of the STIP including performance measures, weighting of performance measures, performance hurdles, and assessment of performance and reward outcomes.

3.1.2.2 Long Term Incentive Plan (LTIP)

The other variable remuneration component is the Long Term Incentive Plan which is designed to:

- attract, retain and motivate all executives;
- align executive rewards to shareholder value creation; and
- provide rewards that are linked to the Company's strategic, financial and human resources objectives.

Long term incentives have been in place since 1993 and have been provided through various executive option plans. Since 1999, long term incentives have been provided through the Executive Option Plan which was designed to reward executives for share price and earnings growth. Performance measures relate to cumulative Earnings per Share (EPS) growth and Total Shareholder Return (TSR) relative to peer companies. EPS and TSR offer a balance between internal and external performance indicators and are aligned to shareholder experiences. In addition, since 2002, Executive Option Plan participation has been linked to executives entering into Service Agreements that offer the Company protection and provide clarity for executives.

From 2003 all Supermarket and BIG W store managers and buyers as well as distribution centre managers became eligible to participate in the Executive Option Plan.

At the 2004 Annual General Meeting, shareholders approved the introduction of a new long term incentive, the Woolworths Long Term Incentive Plan. The Plan has four Sub-Plans that together can provide Options, Performance Rights, Performance Shares or Cash Awards. This Plan allows the Board flexibility to determine which of the Sub-Plan's awards will be granted to deliver the overall LTIP objectives. Like the previous Executive Option Plan, stringent performance measures are set annually and relate to EPS and TSR hurdles.

In the event of cessation of employment, both the Executive Option Plan and the LTIP Rules provide the Board with discretion as to the treatment of unvested long term incentive awards.

Executive Option Plan

This Plan was approved by shareholders in November 1999. There are five tranches and each tranche is subject to performance hurdles established by the People Policy Committee and approved by the Board. Hurdles relate to cumulative EPS growth and to relative TSR. As at 25 June 2006, there were 30,346,968 options issued under this Plan. This Plan was last offered with an effective grant date of 1 July 2004.

The Executive Option Plan has the following features:

– the exercise price is set at the weighted average market price of a Woolworths Limited ordinary share on the five trading days prior to the date approved by the Board as the effective date of options for the purpose of determining the exercise period and performance hurdles;
– an exercise period that commences after five years, subject to performance hurdles being met and with a maximum exercise period of five and a half years;
– upon exercise, each option entitles the option holder to one ordinary fully paid Woolworths Limited share;
– vesting is subject to two performance hurdles based on cumulative EPS growth and relative TSR measured over the performance period;
– the performance measures, EPS growth and relative TSR each represent 50% of the options granted;
– EPS is the non-dilutive EPS which is measured as the net profit of the consolidated entity after outside equity interests divided by the weighted average number of shares on issue (including ordinary shares and dividend reinvestment allotments, but excluding shares held by Woolworths' custodian) over the performance period;
– the EPS component vests in four tranches, dependent on attaining average annual growth of either 10% or 11% as follows:
– the fifth tranche (50% of options) is linked to relative TSR and measures the growth in the Company's share price plus dividends notionally reinvested in the Company's shares comparative to a peer group, measured over five years from the grant date but averaged for three months to eliminate volatility. This reflects the increase in value delivered to shareholders over the performance period;
– TSR performance is measured against comparator companies comprised of the S&P/ASX 100 Industrials Index, excluding companies in the ASX Banks and Finance Accumulation Index, ASX All Resources and ASX Trusts and any companies in the comparator group that have merged, had a share reconstruction or been de-listed as at the measurement date;
– TSR performance measurement for the purpose of calculating the number of options to vest is carried out by an independent third party; and

Tranche	*Percentage of options in total grant that may be exercised*	*Performance hurdle to be achieved for vesting*	*Exercise period*
Tranche 1	12.5%	4 year 10% EPS	Between 5 – 5.5 years from the effective date
Tranche 2	12.5%	4 year 11% EPS	Between 5 – 5.5 years from the effective date
Tranche 3	12.5%	5 year 10% EPS	Between 5 – 5.5 years from the effective date
Tranche 4	12.5%	5 year 11% EPS	Between 5 – 5.5 years from the effective date

– the percentage of the total number of options granted that vest is dependent on Woolworths ranking relative to the performance of the above comparator companies. The following table sets out the TSR vesting schedule:

Woolworths TSR equals or exceeds the following percentile of the comparator companies	*Percentage of options in total grant that vest and may be exercised*
60th percentile	12.5%
65th percentile	25.0%
70th percentile	37.5%
75th percentile	50.0%

Woolworths Long Term Incentive Plan

The Woolworths Long Term Incentive Plan has four Sub-Plans as described below. This provides the Board with the flexibility to determine which of the Sub-Plans will best meet the overall LTIP objectives. It should be noted that to date the Company has used Options under the Option Sub-Plan to satisfy LTIP grants.

For the 2007 financial year the Board has determined that the LTIP offer will be made under the Option Sub-Plan and will contain performance hurdles the same as those described for the Executive Option Plan.

1 Option Sub-Plan

The Option Sub-Plan delivers a right to the holder of an option to acquire a share at a future date, subject to performance hurdles being met and the payment of an exercise price.

2 Performance Rights Sub-Plan

The Performance Rights Sub-Plan delivers a contractual right to a future grant of a Company share to the right holder at a future date, subject to the performance hurdles being met. Each Performance Right has the following features:

– it can be exercised for no monetary payment; and
– upon exercise, each Performance Right entitles the right holder to the issue of one ordinary fully paid Woolworths Limited share.

3 Performance Share Sub-Plan

The Performance Share Sub-Plan provides for a contractual right to an immediate grant of Company shares to participants, entitlement to which is subject to performance hurdles being achieved. Each Performance Share has the following features:

– it can be exercised for no monetary payment; and
– participants receive dividends or other distributions and entitlements as an ordinary Company shareholder.

4 Cash Award Sub-Plan

The Cash Award Sub-Plan provides for participants to receive cash-based long-term incentives subject to specified performance hurdles being met.

Directors and executives

All key management personnel were employed by Woolworths Limited during the year. The following is a list of the key management personnel of Woolworths Limited and their positions at the date of this Report.

	Current position title
Executive Directors	
Roger Campbell Corbett	Group Managing Director and Chief Executive Officer, up until 30 September 2006
Michael Luscombe[(1)]	Chief Operating Officer
Chairman	
James Alexander Strong	Chairman of the Board and member of the Audit Committee and People Policy Committee
Non-executive Directors	
Leon Michael L'Huillier[(2)]	Non-executive Director; member of the Audit Committee and Chair of the Woolworths Group Superannuation Scheme
Adrienne Elizabeth Clarke	Non-executive Director and member of the People Policy Committee
Roderick Sheldon Deane	Non-executive Director and Chair of the People Policy Committee[(3)]
Diane Jennifer Grady	Non-executive Director and member of the Audit Committee[(3)]
John Frederick Astbury[(4)]	Non-executive Director and Chair of the Audit Committee
Executives	
Tom Pockett[(5)]	Chief Financial Officer
Steve Bradley	Chief Logistics and Information Officer
Marty Hamnett[(6)]	Managing Director – Progressive Enterprises Limited
Naum Onikul[(7)]	Director of Supermarkets

Notes

(1)
Mr Luscombe was appointed Chief Operating Officer on 1 June 2006 and it has been announced that Mr Luscombe will become CEO on 1 October 2006. Prior to 1 June 2006, he was Director of Supermarkets.

(2)
Mr L'Huillier was appointed a Director and Chair of Woolworths Group Superannuation Scheme Pty Ltd effective 1 May 2006.

(3)
Mr Deane assumed the Chair of the People Policy Committee in September 2006, previously held by Ms Grady.

(4)
Mr Astbury resigned as a Director and Chair of Woolworths Group Superannuation Scheme Pty Ltd effective 30 April 2006.

(5)
It has been announced that Mr Pockett will join the Board. Mr Pockett will stand for election at the Annual General Meeting on 24 November 2006.

(6)
Mr Hamnett was appointed Managing Director – Progressive Enterprises Limited on 26 April 2006. Prior to this appointment Mr Hamnett was Director of Business Development.

(7)
Mr Onikul was appointed Director of Supermarkets on 1 July 2006. Prior to this appointment Mr Onikul was the Director of Liquor and Petrol.

3.2 Conditional entitlement to and shareholdings

The table below summarises the movements during the year in holdings of option interests for the key management personnel in the Company for the period. An option entitles the holder to one ordinary fully paid Woolworths Limited share. There is no amount unpaid on options exercised.

	Options Holding at 27 June 2005	*Options granted as remuneration*[1]		*Options exercised*[2]	
	No.	*No.*	*$*	*No.*	*$*
S Bradley	672,500	80,000	177,200	262,500	2,667,000
M Hamnett	460,000	40,000	88,600	–	–
M Luscombe	485,000	80,000	177,200	75,000	973,500
N Onikul	160,000	80,000	177,200	–	–
T Pockett	500,000	80,000	177,200	–	–
Total	2,277,500	360,000	797,400	337,500	3,640,500

Notes

(1)
"Options granted as remuneration" is the total fair value of options granted during the year determined by an independent actuary. This will be amortised over the vesting period.

(2)
The value of options exercised during the year is calculated as the market value of shares on the Australian Stock Exchange (ASX) as at close of trading on the date the options were exercised after deducting the price paid to exercise the options.

The amount paid per share exercised was $6.17 and no amounts remain unpaid. No other options were exercised by key management personnel.

	Options Holding at 27 June 2004	*Options granted as remuneration*[2]		*Options exercised*[3],[5]	
	No.	*No.*	*$*	*No.*	*$*
S Bradley	960,000	150,000	291,000	437,500	3,217,375
B Brookes	970,000	60,000	116,400	750,000	4,732,500
T Flood[1]	660,000	–	–	350,000	2,747,500
M Hamnett	610,000	150,000	291,000	300,000	1,893,000
M Luscombe	872,500	150,000	291,000	537,500	3,378,375
N Onikul	810,000	100,000	194,000	750,000	4,732,500
T Pockett	350,000	150,000	291,000	–	–
Total	5,232,500	760,000	1,474,400	3,125,000	20,701,250

Notes

(1)
Mr Flood retired 31 August 2004 and Mr Luscombe was appointed Director of Supermarkets. All of Mr Flood's outstanding and vested options lapsed as at his retirement date.

(2)
Granted as remuneration is the total fair value of options granted during the year determined by an independent actuary.

(3)
The value of options exercised during the year is calculated as the market value of shares on the ASX as at close of trading on the date the options were exercised after deducting the price paid to exercise the options.

Options Lapsed No.	Options Lapsed $	Options Holding at 25 June 2006[(3)] No.	Options Vested at 25 June 2006 Total No.	Exercisable No.	Unexercisable No.	Vested during the year No.
–	–	490,000	–	–	–	175,000
–	–	500,000	100,000	100,000	–	50,000
–	–	490,000	–	–	–	50,000
–	–	240,000	–	–	–	–
–	–	580,000	–	–	–	–
–	–	2,300,000	100,000	100,000	–	275,000

(3)
The number of ordinary shares under option as at 25 June 2006 is equivalent to the option holding at that date.

Options Lapsed[(4)] No.	Options Lapsed[(4)] $	Options Holding at 25 June 2005[(6)] No.	Options Vested at 26 June 2005 Total No.	Exercisable No.	Unexercisable No.	Vested during the year No.
–	–	672,500	87,500	–	87,500	225,000
–	–	280,000	–	–	–	500,000
310,000	414,600	–	–	–	–	200,000
–	–	460,000	50,000	12,500	37,500	250,000
–	–	485,000	25,000	–	25,000	350,000
–	–	160,000	–	–	–	500,000
–	–	500,000	–	–	–	–
310,000	414,600	2,557,500	162,500	12,500	150,000	2,025,000

(4)
The value of lapsed options was determined based on the fair value of the options as at date of lapse using the Monte Carlo Simulation Binomial method.

(5)
No amount is payable as of 26 June 2005 in respect of shares issued as a result of the exercise of options during the year.

(6)
The number of ordinary shares under option as at 26 June 2005 is equivalent to the options holding at that date.

The table below summarises the movements during the year in holdings of shares in Woolworths Limited held by the key management personnel.

	Shareholding at 26 June 2005 No.	*Shares received on exercise of options No.*	*Other changes in shareholding[(1)] No.*	*Shareholding at 25 June 2006 No.*
R Corbett	293,165	–	–	293,165
S Bradley	61,863	262,500	(54,926)	269,437
M Hamnett	5,000	–	–	5,000
M Luscombe	656,926	75,000	(323,636)	408,290
N Onikul	500,000	–	(302,009)	197,991
T Pockett	–	–	–	–

	Shareholding at 26 June 2005 No.	*Shares issued under DRP[(2)] No.*	*Shares issued under NEDSP[(3)] No.*	*Shares sold[(1)] No.*	*Shareholding at 25 June 2006 No.*
J F Astbury	8,386	42	2,051	–	10,479
A E Clarke	38,766	682	2,051	–	41,499
R S Deane	40,000	–	–	–	40,000
D J Grady	33,801	869	–	–	34,670
L M L'Huillier	119,044	–	–	(59,044)	60,000
J A Strong	68,137	–	1,879	–	70,016

Notes

(1)
Figures in brackets indicate that these shares have been sold or otherwise disposed of.

(2)
Comprises new shares issued as a result of participation in the Dividend Reinvestment Plan on the same basis as transactions by other shareholders and on-market transactions.

(3)
Comprises shares issued under the Non-executive Directors' Share Plan (NEDSP).

The table below sets out the grants of options and outstanding options for the key management personnel in Woolworths Limited for the period 27 June 2005 to 25 June 2006.

	Grant date	*No. of options at 25 June 2006*[(1)]	*Expiry date*	*Exercise Price per option*	*Exercise date*[(2)]	*Maximum value of award to vest*[(3)]	*Fair value per option*[(4)]
S Bradley	1/07/2002	160,000	31/12/2007	$12.94	1/07/2007	$248,000	$1.55
	1/07/2003	100,000	31/12/2008	$12.60	1/07/2008	$115,500	$1.16
	1/07/2004	150,000	31/12/2009	$11.54	1/07/2009	$581,250	$3.88
	1/07/2005	80,000	31/12/2010	$16.46	1/07/2010	$177,200	$2.22
		490,000				$1,121,950	
M Hamnett	1/07/2001[(5)]	100,000	1/07/2011	$10.89	1/07/2004	$141,250	$2.83
	1/07/2002	60,000	31/12/2007	$12.94	1/07/2007	$93,000	$1.55
	1/07/2003	150,000	31/12/2008	$12.60	1/07/2008	$173,250	$1.16
	1/07/2004	150,000	31/12/2009	$11.54	1/07/2009	$581,250	$3.88
	1/07/2005	40,000	31/12/2010	$16.46	1/07/2010	$88,600	$2.22
		500,000				$1,077,350	
M Luscombe	1/07/2002	160,000	31/12/2007	$12.94	1/07/2007	$248,000	$1.55
	1/07/2003	100,000	31/12/2008	$12.60	1/07/2008	$115,500	$1.16
	1/07/2004	150,000	31/12/2009	$11.54	1/07/2009	$581,250	$3.88
	1/07/2005	80,000	31/12/2010	$16.46	1/07/2010	$177,200	$2.22
		490,000				$1,121,950	
N Onikul	1/07/2003	60,000	31/12/2008	$12.60	1/07/2008	$69,300	$1.16
	1/07/2004	100,000	31/12/2009	$11.54	1/07/2009	$387,500	$3.88
	1/07/2005	80,000	31/12/2010	$16.46	1/07/2010	$177,200	$2.22
		240,000				$634,000	
T Pockett	1/07/2002	200,000	31/12/2007	$12.94	1/07/2007	$310,000	$1.55
	1/07/2003	150,000	31/12/2008	$12.60	1/07/2008	$173,250	$1.16
	1/07/2004	150,000	31/12/2009	$11.54	1/07/2009	$581,250	$3.88
	1/07/2005	80,000	31/12/2010	$16.46	1/07/2010	$177,200	$2.22
		580,000				$1,241,700	

No amounts were paid or payable by the recipient on receipt of the option.

The minimum value yet to vest is the minimum value of options that may vest if the performance criteria are not met. It is assessed as nil for each option grant and has not been specifically detailed in the table above on the basis that no options will vest if the performance criteria are not satisfied.

Notes

(1)
The number of options at 25 June 2006 comprises both options that have vested and have not been exercised and options yet to vest.

(2)
Options not exercised within six months of exercise date lapse.

(3)
The maximum value of award to vest represents the value of employee benefit expense that will be recorded in future reporting periods in respect of options currently on issue.

(4)
The fair value per option was determined by an independent actuary using the Monte Carlo Simulation Binomial method.

(5)
50% of the 1/07/2001 options grant was yet to vest at 25 June 2006.

Grant date	Expiry date	Exercise price	No. of options 26 June 2005	No. of options granted during year	No. of options exercised during year	No. of options lapsed during year	No. of Options 25 June 2006	Fair value of shares received[1]
1/07/1999	1/07/2009	$5.11	951,875	–	551,375	–	400,500	$9,137,533
1/07/2000	1/07/2010	$6.17	2,252,125	–	1,942,750	–	309,375	$31,958,478
1/07/2001	1/07/2011	$10.89	6,107,982	–	710,426	97,713	5,299,843	$12,095,306
1/07/2002	31/12/2007	$12.94	5,386,000	–	–	774,000	4,612,000	–
1/07/2003	31/12/2008	$12.60	6,569,350	–	–	659,000	5,910,350	–
1/07/2004	31/12/2009	$11.54	7,752,750	–	–	653,250	7,099,500	–
1/07/2005	31/12/2010	$16.46	–	6,906,300	–	190,900	6,715,400	–
			29,020,082	6,906,300	3,204,551	2,374,863	30,346,968	$53,191,317

Note

(1)
The fair value of shares received is determined by multiplying the average monthly market price by the number of options exercised in that month.

3.3 Relationship of variable remuneration to Woolworths' financial performance

Woolworths' executive remuneration is directly related to the performance of the following results through linking of short and long term incentive targets to these measures.

The effectiveness of the STIP in driving year-on-year growth and business improvements is highlighted in the following table. Each of these elements is currently linked to Woolworths STIP.

In monetary terms, since 2002:

Five Year Performance Table	2002	2003	2004	2005 AGAAP	2005 AIFRS	2006 AIFRS
Sales ($m)	24,473	26,321	27,934	31,352	31,352	37,734
EBIT ($m)	833	946	1,065	1,283	1,302	1,722
ROFE (%)	38.1	42.8	49.3	38.7	42.6	28.6[1]
CODB (%)	21.84	21.55	21.10	20.80	20.73	20.47

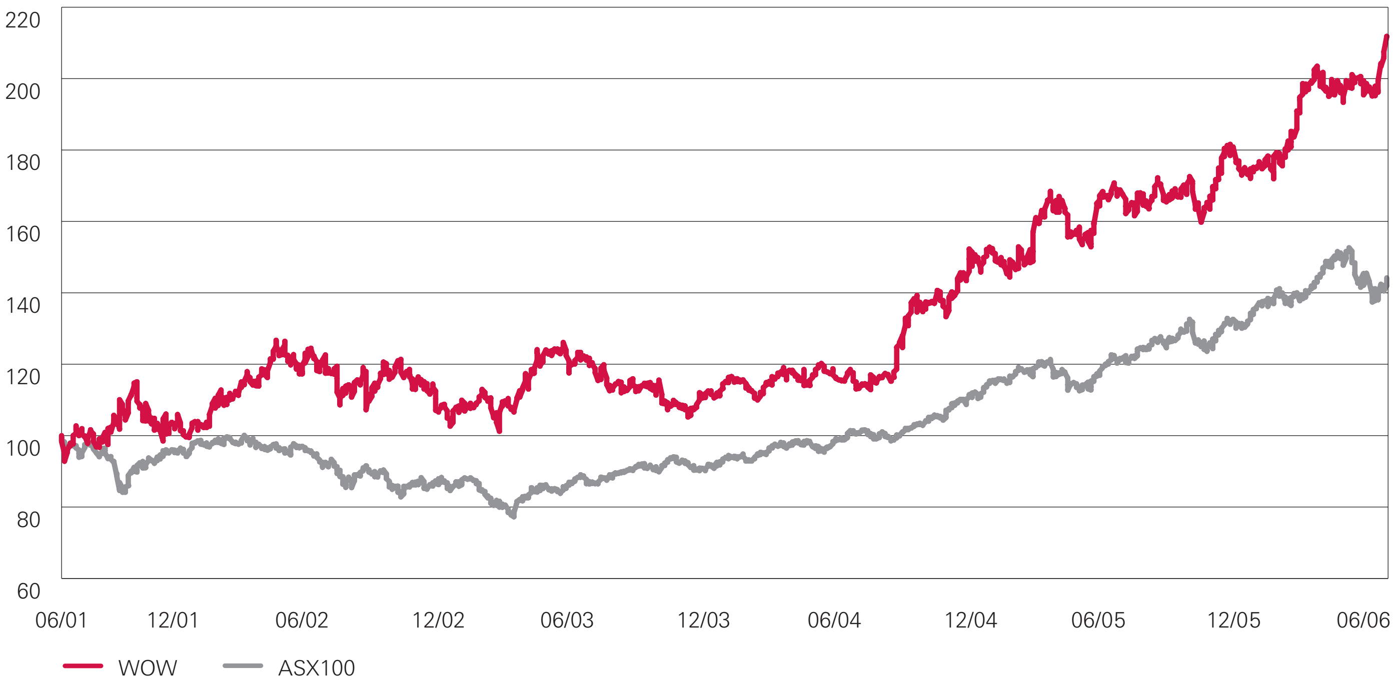
Note

(1)
Impacted by increase in Funds Employed following the acquisition of ALH.

- Sales have increased by more than 50% since 2002;
- EBIT has increased by more than 100%;
- ROFE has declined in FY05 and FY06 due to the acquisitions of ALH, FAL, Taverner and BMG. 2005 and 2006 had partial earnings from the respective acquisitions that occurred at various times over that two year period; and
- CODB has decreased.

Whilst EBIT has doubled over the period, STIP paid to executives has remained at less than 10% of EBIT over the same period.

The following shows the performance of the Company (as measured by the Company's TSR) and the comparison of the Company's TSR to the ASX 100 Index.



A comparison of the improved financial performance and benefits for shareholder wealth derived from Woolworths' long-term incentive arrangements and the number of options granted to all executives are shown in the following table:

Year ended June	*2002*	*2003*	*2004*	*2005*	*2006*
EPS (cents per share)	50.24	58.09	67.40	79.19	90.89
Total dividends (cents per share)	33.0	39.0	45.0	51.0	59.0
Market capitalisation ($ million)	13,797	12,945	11,875	17,493	22,822
No. of options granted to executives (million)	8.5	6.4	7.5	7.8	6.9
Fair value per option ($)	2.83	1.55	1.16	3.88	2.22
No. of executives granted options	149	333	1,277[1]	1,354	1,464

Note

(1)
Grants under the Long Term Incentive Plan were extended to Store Managers and Distribution Centre Managers in this and subsequent years.

3.4 Remuneration tables

Set out in the following table is the remuneration for the key management personnel of Woolworths Limited during the financial year ended 25 June 2006.

	Short-term employee benefits			Post-employment benefits	
	Salary and fees $	*Short term cash bonus* $	*Non-monetary benefits*[(1)] $	*Super-annuation* $	*Retirement allowance accrual*[(2)] $
Non-executive Directors					
J F Astbury*	170,000	–	1,972	12,139	–
A E Clarke*[(4)]	120,000	–	1,972	10,800	(27,777)
R S Deane	130,000	–	1,972	11,700	44,584
D J Grady	130,000	–	1,972	11,700	30,000
L M L'Huillier[(5)]	195,000	–	1,972	12,139	321,621
J A Strong*	330,000	–	1,972	12,139	138,333
Executive Directors					
R C Corbett	3,071,683	2,291,746	51,096	–	3,000,000
M Luscombe	858,121	714,800	31,120	106,000	–
Executives					
S Bradley	713,063	566,366	23,057	103,478	–
M Hamnett	595,788	508,430	11,675	84,000	–
N Onikul	722,184	641,044	15,229	100,000	–
T Pockett	745,699	739,404	26,135	110,435	–
Total	7,781,538	5,461,790	170,144	574,530	3,506,761

Notes

*
These fees include fees sacrificed for the purchase of shares in the Company under the Non-executive Directors' Share Plan.

(1)
Non-monetary benefits include the cost to the Company of motor vehicles, fringe benefits tax and other items where applicable, in addition to the deemed premium in respect of the Directors' and Officers' Indemnity insurance.

(2)
These amounts are only payable to Non-executive Directors upon retirement. The Board resolved effective 1 January 2004 that in relation to the Directors' Retirement Allowance any Director appointed from that date would not enter into a Directors' Retirement Deed with the Company. This resolution was made prior to the appointment of Mr Astbury and consequently he is not entitled to a retirement allowance. The $3 million payment to Mr Corbett relates to his retirement benefit as disclosed in Section 3.5.1.

(3)
The Long Term Incentive Plan referred to in the table is only applicable to Mr Corbett.

Other long-term benefits		Share-based payments			
Long service leave *$*	*Long-term incentive plan*[3] *$*	*Options*[6] *$*	*Total* *$*	*Options as a % of total remun-eration* *%*	*Accrued retirement allowance* *$*
–	–	–	184,111	–	–
–	–	–	104,995	–	600,000
–	–	–	188,256	–	406,250
–	–	–	173,672	–	650,000
–	–	–	530,732	–	861,250
–	–	–	482,444	–	1,045,000
262,123	2,100,000	–	10,776,648	–	–
72,106	–	239,929	2,022,076	11.9%	–
20,353	–	239,929	1,666,246	14.4%	–
9,559	–	240,096	1,449,548	16.6%	–
38,828	–	94,253	1,611,538	5.8%	–
19,421	–	265,559	1,906,653	13.9%	–
422,390	2,100,000	1,079,766	21,096,919		3,562,500

(4)
Professor Clarke attained the maximum 10 years entitlement to this allowance at 27 June 2004. Therefore, no further provision was made in the year ended 25 June 2006. The reduction of $27,777 in the allowance accrued at 25 June 2006 arose due to the method of calculating the accrual using an average of a rolling three years fee base for the three years to June 2006.

(5)
Mr L'Huillier receives an additional fee of $65,000 per annum as a Non-executive Director and $10,000 per annum as Chair of the Audit Committee of ALH Group Limited. These fees were also included in the determination of Mr L'Huillier's Directors Retirement Allowance.

(6)
These numbers represent the current year apportionment of the fair value of unvested options, on a pro rata basis over the total vesting period, determined by an independent actuary.

Set out in the following table is the remuneration for the Executive Director, non-executive Directors and other key management personnel of Woolworths Limited during the financial year ended 26 June 2005.

	Short-term employee benefits			*Post-employment benefits*	
	Salary and fees $	*Short term cash bonus $*	*Non-monetary benefits[1] $*	*Super-annuation $*	*Retirement allowance accrual[2] $*
Non-executive Directors					
J F Astbury*	186,974	–	1,722	11,585	–
A E Clarke*	120,000	–	1,722	10,598	(41,345)
R S Deane	130,000	–	1,722	11,585	73,021
D J Grady	130,000	–	1,722	11,585	76,666
L M L'Huillier	195,000	–	1,722	11,585	75,532
J A Strong*	330,000	–	1,722	11,585	166,369
Executive Director					
R C Corbett	2,354,037	3,043,300	65,195	–	–
Executives					
S Bradley	608,473	338,874	24,455	90,435	–
M Hamnett	549,067	284,661	15,224	79,000	–
M Luscombe	619,185	453,423	17,311	87,000	–
N Onikul	603,865	442,297	23,898	95,000	–
T Pockett	620,951	433,655	32,163	91,522	–
B Brookes[6]	537,097	376,512	26,758	74,000	–
T Flood	386,057	–	26,393	22,000	–
Total	7,370,706	5,372,722	241,729	607,480	350,243

Notes

*
These fees include fees sacrificed for the purchase of shares in the Company under the Non-executive Directors' Share Plan.

(1)
Non-monetary benefits include the cost to the Company of motor vehicles, fringe benefits tax and other items, where applicable and also Directors' and Officers' Indemnity insurance.

(2)
These amounts are only payable to Non-executive Directors upon retirement and on having satisfied a minimum three year service period.

(3)
The Long Term Incentive Plan referred to in the table is only applicable to Mr Corbett.

Other long-term benefits		Share-based payments			
Long service leave $	Long Term incentive plan(3) $	Options(4) $	Total $	Options as a % of total remun-eration %	Accrued retirement allowance $
–	–	–	200,281	–	–
–	–	–	90,975	–	627,777
–	–	–	216,328	–	361,666
–	–	–	219,973	–	620,000
–	–	–	283,839	–	539,629
–	–	–	509,676	–	906,667
30,264	3,000,000	–	8,492,796	–	–
17,457	–	249,295	1,328,989	18.8%	–
56,692	–	169,195	1,153,839	14.7%	–
52,487	–	171,201	1,400,606	12.2%	–
17,672	–	56,313	1,239,045	4.5%	–
11,620	–	165,594	1,355,504	12.2%	–
16,392	–	92,748	1,123,507	8.3%	–
1,860	–	–	436,310	–	–
204,444	3,000,000	904,346	18,051,668		3,055,739

(4)
These numbers represent the current year apportionment of the fair value of unvested options, on a pro rata basis over the total vesting period, determined by an independent actuary.

(5)
As a result of the adoption of AIFRS, the basis for measuring the following elements of remuneration in the comparative period have changed:

- amounts for defined benefit plans have been included based on an allocation of the current service cost and recognised past service cost for each employee;
- amounts for accrued annual leave have been included in salaries and fees; and
- amounts for accrued long service leave have been included in other long term benefits.

Comparative balances have been amended to reflect this change.

(6)
Mr Brookes was part of the key management personnel in 2005 and was appointed Director of Marketing on 1 July 2005.
Mr Brookes resigned from the Company on 12 April 2006.

3.5 Executive Service Agreements

3.5.1 Chief Executive Officer (Roger Corbett)

The CEO's Service Agreement which was effective 6 September 2004 terminates on 30 September 2006 and includes the components of remuneration to be paid to the CEO during the term of the Agreement. Upon retirement at the end of the term, the CEO is entitled to receive a payment of a retirement benefit of $3 million in addition to payment for STIP and LTIP as detailed below, as well as statutory leave entitlements and superannuation benefits. The Agreement also provides for his consultancy services to Woolworths from his retirement in September 2006 until September 2011 and a restraint that will prevent him from providing services to major competitors of Woolworths in Australasia, for which Mr Corbett will be paid $600,000 per annum.

Short Term Incentive Plan

The maximum annual incentive opportunity is 130% of fixed remuneration, with the actual payment to be determined by the Board having regard to the achievement by Mr Corbett against performance criteria which are set each year by the Board. The performance criteria are based on a combination of detailed measurements of corporate and financial performance and the implementation of strategic operational objectives.

Long Term Incentive Plan

The CEO participated in the Executive Option Plan in 2000 under the same terms and conditions as other executives but subject to a three year vesting period. At the 2004 Annual General Meeting shareholder approval was given for the Board to grant up to two million options to the CEO on the basis that up to one million options would be granted for each of the 2004 and 2005 financial years.

The Board subsequently determined that the above arrangement would be replaced with cash-based incentives of up to a maximum of $3 million per annum in relation to key strategic initiatives for the financial years ending 30 June 2005, 2006 and 2007. In addition to conventional performance measures, further measures will be considered by the Board that closely align the strategic positioning of Woolworths including:

- growth and market share in key business categories;
- pursuing acquisitions and alliance strategies;
- initiation of management changes to prepare for succession and smooth transition for the new leadership team; and
- developing further strategic initiatives to ensure future growth.

3.5.2 Chief Executive Officer (Michael Luscombe)

The Company is finalising the details of Mr Luscombe's Service Agreement, which will be announced on completion.

3.5.3 All other executives

Since 2002, LTIP participation has been offered subject to executives entering into Service Agreements with the Company. The Service Agreements include the components of remuneration paid to executives (as detailed in Section 3.2) but do not prescribe how remuneration levels are to be modified from year to year. They do not provide for a fixed term although these Service Agreements can be terminated on specified notice. For all of the executives, the Company is required to give a minimum of two months' notice. However, the Company retains the right to terminate any Service Agreement immediately in a number of circumstances including fraud, dishonesty, breach of duty or improper conduct.

All of the executives are required to provide the Company with a minimum of four weeks' notice of termination. In addition, for all executives, the Company may elect to invoke a restraint period not exceeding 12 months.

All executives are entitled to receive their statutory leave entitlements and superannuation benefits upon termination. In relation to incentive plans on termination, where an executive has resigned, STIP is paid only if the executive is employed on the last day of the financial year. In relation to LTIP, the treatment of vested and unvested options, in all instances of separation, remains subject to the discretion of the Board in accordance with the Plan rules.

4 NON-EXECUTIVE DIRECTORS' REMUNERATION

4.1 Non-executive Directors' remuneration policy and structure

Non-executive Directors' fees are determined by the Board within the aggregate amount approved by shareholders. The current maximum aggregate amount which may be paid in Directors' fees, as approved at the Annual General Meeting on 25 November, 2005 is $1,750,000 per annum. No Directors' fees are paid to Executive Directors.

As of 1 August 2006, the amount of Directors' base fees paid to each non-executive Director is $165,000 per annum. The Chairman receives a multiple of three times this amount. The fees for Directors appointed prior to January 2004 were increased effective 1 August 2006 following their decision to "freeze" their retirement benefits (see Section 4.3 below). Fees for Directors appointed after December 2003 who were not previously entitled to a retirement allowance were increased effective 1 July 2006.

In addition to the above base fees, the non-executive Directors, other than the Chairman, receive a fee for service on a Board Committee (except the Corporate Governance Committee). The fees for serving as a member of a Board

Committee are $22,500 for the Audit Committee and $15,000 for the People Policy Committee. A Board Committee Chair receives $45,000 for chairing the Audit Committee, $30,000 for the People Policy Committee and $20,000 for the Woolworths Group Superannuation Scheme.

Fees for Directors who are Directors of the controlled entity ALH Group Pty Ltd (ALH) are $75,000 and for being Chair of the ALH Audit Committee $22,500.

An overseas Directors' Allowance of $10,000 is also provided to any Non-executive Directors residing outside Australia, representing the additional time and cost involved in attending to Board and Board Committee responsibilities.

The structure and level of non-executive Directors' fees was based on independent research and advice from external remuneration advisors. The advice takes into consideration the fees paid to non-executive Directors of Australian listed corporations, the size and complexity of the Company's operations and the responsibilities and workload requirements of Directors. Directors (with the exception of the Chair) receive a base fee for being a Director of the Board, and additional fees for either chairing or being a member of a Board Committee or serving on the Boards of controlled entities. No element of the remuneration of any Non-executive Director is dependent on the satisfaction of a performance condition.

4.2 Non-executive Director Share Plan

The Non-executive Director Share Plan (NEDSP) was established following approval by shareholders at the Company's Annual General Meeting on 26 November 1999. The NEDSP allows non-executive Directors to forego some of their future pre-tax Directors' fees to acquire shares in the Company at prevailing market prices on the Australian Stock Exchange. The rules of the NEDSP are virtually identical to the Woolworths Executive Management Share Plan as described in Note 24. During the 52 week period ended 25 June 2006, 5,981 shares (2005: 5,177) were purchased under the NEDSP.

4.3 Non-executive Directors' retirement benefits cease

Directors' Retirement Deeds, which were approved by shareholders in November 1998 entitled each non-executive Director (appointed prior to January 2004) to receive an allowance on retirement as a Director (Allowance) after a minimum period of service. The Board determined that it should implement changes to non-executive Director remuneration consistent with developing market practice and guidelines by discontinuing the on-going accrual of benefits under the existing retirement benefits arrangements on 1 August 2006. The benefits accrued to that date will be indexed by reference to the bank bill rate and may be rolled into a defined benefit superannuation fund until retirement occurs. With the cessation of the retirement benefits, all non-executive Directors shall receive the same base fees as set out in Section 4.1 above.

4.4 Remuneration tables for Non-executive Directors

For the financial year ending 25 June 2006 details of the remuneration of the non-executive Directors are set out at Section 3.4 of this Report.

4.5 Shareholdings of non-executive Directors

For the financial year ending 25 June 2006 details of shareholdings of non-executive Directors is set out at Section 3.2 of this Report.

4.6 Appointment Letters, Deeds of Access, Insurance and Indemnity, Disclosure Deeds

The Company and each of the Non-executive Directors have entered into an Appointment Letter together with a Deed of Access, Insurance and Indemnity, a Disclosure Deed (as required under the ASX Listing Rules). The Appointment Letter covers the key aspects of the duties, role and responsibilities of non-executive Directors.

Non-executive Directors are not appointed for a specific term and their appointment may be terminated by notice from the Director or otherwise pursuant to sections 203B or 203D of the Corporations Act 2001.

DIRECTORS' STATUTORY REPORT

ENVIRONMENTAL REGULATION

Except as set out below, the operations of the Group are not subject to any particular and significant environmental regulation under a law of the Commonwealth of Australia or of any of its States or Territories.

The Woolworths Petrol operations are subject to regulations and standards governing the construction and operation of the facilities relating to the storage and dispensing of petroleum products.

The Group may also from time to time be subject to various State and Local Government food licensing requirements and environmental and town planning regulations incidental to the development of shopping centre sites.

As outlined in the Group Managing Director's Report the Group has implemented a number of environmental initiatives. The Group has not incurred any significant liabilities under any environmental legislation.

DIRECTORS' AND OFFICERS' INDEMNITY/INSURANCE

(i) The Constitution of the Company provides for an indemnity (to the maximum extent permitted by law) in favour of each Director of the Company referred to from pages 36 to 37 of this Report, the Company Secretary, directors and secretaries of related bodies corporate of the Company, and previous directors and secretaries of the Company and its related bodies corporate (Officers), against any liability to third parties (other than related Woolworths Group companies) incurred on or after 15 April 1994 by such Officers unless the liability arises out of conduct involving a lack of good faith. The indemnity includes costs or expenses incurred by an Officer in successfully defending proceedings or in connection with an application in which the court grants relief to the specified persons under the Corporations Act 2001.

(ii) Each Director has entered into a Deed of Indemnity and Access which provides for indemnity against liability as a Director, except to the extent of indemnity under an insurance policy or where prohibited by statute. The Deed also entitles the Director to access Company documents and records, subject to undertakings as to confidentiality.

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

AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration is included on page 59 of the Annual Report.

NON-AUDIT SERVICES

During the year, Deloitte Touche Tohmatsu, the Company's auditors, have performed certain other services in addition to their statutory duties. The Board is satisfied that the provision of those non-audit services during the year is compatible with, and did not compromise, the auditor independence requirements of the Corporations Act 2001 or as set out in Professional Statement F1, Professional Independence. It did not involve reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, acting as an advocate for the Company or jointly sharing risks or rewards.

Details of amounts paid or payable to the auditor for non-audit services provided during the year by the auditor are outlined in Note 4 to the Financial Statements.

ROUNDING OF AMOUNTS

The Company is of a kind referred to in Australian Securities and Investments Commission Class Order 98/0100 dated 10 July 1998 pursuant to section 341(1) of the Corporations Act 2001 relating to the "rounding off" of amounts in the financial report and Directors' Report. In accordance with that Class Order, amounts therein have been rounded off to the nearest tenth of a million dollars except where otherwise indicated.

This Report is made out in accordance with a Resolution of the Directors of the Company on 22 September 2006.

James Strong
Chairman

Roger Corbett
Group Managing Director/CEO

Deloitte.

Deloitte Touche Tohmatsu
A.B.N. 74 490 121 060

Grosvenor Place
225 George Street
Sydney NSW 2000
PO Box N250 Grosvenor Place
Sydney NSW 1220 Australia

DX 10307SSE
Tel: +61 (0) 2 9322 7000
Fax: +61 (0) 2 9322 7001
www.deloitte.com.au

The Chairman
The Board Audit Committee
Woolworths Limited
1 Woolworths Way
Bella Vista NSW 2153

22 September 2006

Dear Board Members

Woolworths Limited

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Woolworths Limited.

As lead audit partner for the audit of the financial statements of Woolworths Limited for the 52 weeks ended 25 June 2006, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

(ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Rod Smith
Partner
Chartered Accountants

Liability limited by the Accountants Scheme, approved under The Professional Standards Act 1994 (NSW).

Member of
Deloitte Touche Tohmatsu

CORPORATE GOVERNANCE

Corporate Governance is at the core of the Company's and Board's approach to the enhancement of shareholder value and protection of shareholders' funds.

Woolworths is committed to ensuring its policies and practices in the critical areas of financial reporting, remuneration reporting and corporate governance meet the highest levels of disclosure and compliance.

The Company has reviewed its current Corporate Governance Policies and Practices against the ASX Corporate Governance Council (CGC) Best Practice Recommendations (Recommendations) and considers that, except as explicitly indicated, they meet the Recommendations for the financial period ended 25 June 2006.

All information that the CGC recommend is publicly available on the Woolworths website – www.woolworthslimited.com.au.

The following sets out the Company's position relating to each of the ASX Principles of Good Corporate Governance.

1 LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

Board responsibilities and objectives

The Board of Directors of the Company acknowledges its accountability to shareholders for the creation of shareholder value and the safeguarding of shareholders' funds.

The roles and responsibilities of the Board are formalised in the Board Charter as set out below, which define the matters that are reserved for the Board and its Committees, and those that are the responsibility of the CEO and management.

In summary, the Board is accountable to shareholders for Woolworths' performance and its responsibilities include:

1 Strategy – reviewing strategic direction and approving corporate strategic initiatives;

2 Board performance and composition – Evaluating the performance of the Board and determining its size and composition;

3 Leadership selection – evaluating the performance of and selecting the Chief Executive Officer (CEO) and the Chief Financial Officer (CFO);

4 Succession and remuneration planning – planning for Board, CEO and executive succession and remuneration and setting Non-executive Director remuneration within shareholder approved limits;

5 Financial performance – reviewing Woolworths' budget, monitoring management and financial performance;

6 Financial reporting – considering and approving Woolworths' half-yearly and annual Financial Statements;

7 Risk management – reviewing and monitoring the effectiveness of risk management and compliance in the organisation in respect of material operational, financial, compliance and strategic risks;

8 Relationship with the ASX and regulators, and continuous disclosure – maintaining an appropriate level of dialogue with the ASX and other regulators and ensuring that the market and shareholders are continuously informed of information that would be expected to have a material effect on the price or volume of the Company's shares and ensuring that internal processes and procedures facilitate compliance;

9 Social responsibility – considering the social, ethical and environmental impact of Woolworths activities and operations and setting standards and monitoring compliance with the Company's social responsibility policies and practices; and

10 Audit

(i) External – selecting and recommending to shareholders the appointment of the external auditor. Determining the duration, remuneration and terms of appointment of the external auditor and evaluating their performance and ongoing independence. Additionally, the Board maintains a direct and ongoing dialogue with the external auditor.

(ii) Internal – maintaining a constant and close review of risk management and compliance management, utilising the internal audit function and compliance function reporting to the Audit Risk Management and Compliance Committee. This process is supplemented by the review of all key audit and compliance reports and management responses and action plans in respect of any findings.

Whilst at all times the Board retains full responsibility for guiding and monitoring the Company, in discharging its responsibilities, it makes use of Board committees. Specialist committees are able to focus on a particular area of responsibility and provide informed feedback to the Board.

To this end the Board has established the following Committees:

- Audit Risk Management and Compliance Committee;
- Corporate Governance Committee;
- People Policy Committee; and
- Superannuation Policy Committee.

The day-to-day management and operations of the Company are the responsibility of the CEO who reports to the Board, on key management and operational issues including:

- developing and implementing corporate strategies and making recommendations to the Board on significant corporate strategic initiatives;
- making recommendations for the appointment of senior management, determining terms of appointment, evaluating performance, and developing and maintaining succession plans for senior management roles;
- developing Woolworths annual budget and managing day-to-day operations within the budget;
- maintaining an effective risk management and compliance framework;
- keeping the Board and market fully informed about material continuous disclosure; and
- managing day-to-day operations in accordance with standards for social, ethical and environmental practices.

Details of each Director's attendance at Board and Committee meetings is detailed in the Directors' Report on page 41.

2 STRUCTURE THE BOARD TO ADD VALUE

Composition of the Board/Committees

The Board has adopted a policy of ensuring that it is composed of a majority of independent non-executive Directors who, with the executive Directors, comprise an appropriate mix of skills to provide the necessary breadth and depth of knowledge and experience to meet the Board's responsibilities and objectives.

Details of the skills, experience and expertise of each Director are set out from page 36 to 37 of this Report. With the exception of the CEO, the COO (who will succeed the current CEO on 1 October 2006) and the CFO, all of the Directors are Non-executive Directors and each are considered to be independent.

A determination of non-executive Directors' independence is based on the Boards' individual and ongoing assessment that the Director is free of any material business or any other relationship that could be reasonably considered to interfere with the exercise of their independent judgement.

In order for a Director to be considered independent the Board determines that the Director does not have a material relationship with the Company, other than solely as a consequence of being a Director.

A "material relationship" includes a direct or indirect interest or relationship that could reasonably be considered to influence in a material way the Directors' decisions in relation to the Company. When considering whether a relationship is "material", the Board will consider the materiality to each of the Company, the Director and the person or organisation, with which the Director is related (as customer, supplier or advisor). Whilst the Board has not set materiality thresholds, it will consider all relationships on a case by case basis.

Any Director who considers that he/she has or may have a conflict of interest or a material personal interest in any matter concerning the Company is required to give the Directors immediate notice of such interest.

The Chairman is elected by and from the non-executive Directors each of whom is appointed to the Corporate Governance Committee. The Non-executive Directors are also appointed to at least one of the Audit, Risk Management and Compliance Committee, the People Policy Committee or to the Policy Committee of the Company's Superannuation Plan. The Audit, Risk Management and Compliance Committee and People Policy Committee have each adopted comprehensive Charters defining their roles and responsibilities as summarised in this Report.

Information on the Company's Chairman is set out on page 36.

Information on the Company's CEO is set out on page 36.

There is no specified term of office for non-executive Directors and the period since appointment of each Non-executive Director is set out from page 36 to 37.

The Board reviews, as considered appropriate, the terms of the Appointment Letter to ensure they are consistent with the ASX Principles and Recommendations.

Corporate Governance Committee

The Corporate Governance Committee consists of the non-executive Directors and its main responsibilities are to review all matters relating to corporate governance including the composition, criteria for membership, appointment, retirement and performance of the Board of Directors, the Board Committees and the Chief Executive Officer of the Company.

The Committee also monitors the Company's Corporate Governance policies and practices against relevant external benchmarks.

CGC Recommendation 2.4 calls for the Board to establish a Nomination Committee. The Board has established the Corporate Governance Committee with, amongst other matters, responsibilities commensurate with a Nomination Committee. In this respect, the Corporate Governance Committee is responsible for the:

- assessment of the necessary and desirable competencies of Board members;
- review of the Board's succession plans;
- evaluation of the Board's performance; and
- recommendations for the appointment and removal of Directors.

Directors' independent advice

The Directors, the Board and the Board Committees are empowered to seek external professional advice, as considered necessary, at the Company's expense, subject to prior consultation with the Chairman. If appropriate, any advice so received will be made available to all Directors.

3 PROMOTE ETHICAL AND RESPONSIBLE DECISION MAKING

Directors' policy statements

The Directors have approved and adopted a Directors Manual comprising Policy Statements setting out their legal and fiduciary duties relating to:

- exercise of due care and diligence;
- ensuring continuous disclosure of material matters;
- dealing with conflicts of interest and duties;
- access to Company documents, information, insurance, indemnities and independent advice;
- confidentiality;
- dealing in securities of the Company and insider trading; and
- fair, open, ethical and honest standards of conduct and dealing.

Policy on trading in Company securities

The Company has a policy which requires Directors, executives and senior managers who trade, or propose to trade, in the securities of the Company, to act in accordance with strict guidelines which prohibit trading in the Company's securities other than during fixed periods of 42 days immediately following the release of the half year and full year results to the ASX and following the Company's AGM.

Notwithstanding this policy, there is no period during which an individual is exempt from the requirements of the Corporations Act in regard to insider trading prohibitions.

4 SAFEGUARD INTEGRITY IN FINANCIAL REPORTING

Financial report accountability

Woolworths' Chief Executive Officer (CEO) and Chief Financial Officer (CFO) are required to state to the Board, in writing, that the Company's Financial Statements and 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.

As part of the process of approving the Financial Statements, the CEO and CFO provide statements in writing to the Board on the effectiveness of the Company's risk management and internal compliance control systems.

Audit, Risk Management and Compliance Committee

The Audit, Risk Management and Compliance Committee of Directors is comprised of non-executive Directors who, at the date of this Report, are Messrs J F Astbury (Chair), J A Strong, L M L'Huillier and Ms D J Grady. The Committee provides advice and assistance to the Board in fulfilling the Board's responsibilities relating to the Group's risk management and compliance systems and practice, Financial Statements, financial and market reporting processes, internal accounting and control systems, internal and external audit and such other matters as the Board may request from time to time.

The Committee also provides advice and assistance to the Board on the compliance framework and its effectiveness including legal and regulatory compliance, health and safety, privacy, environment, trade practices and fair trading, trade weights and measures, and employment obligations. Woolworths has specific policies and processes for addressing these and other compliance areas and the Committee receives and reviews regular management reports in each of these areas.

The Committee processes are designed to establish a proactive framework and dialogue in which the Committee, management and external and internal auditors review and assess the risk framework, the quality of earnings, liquidity and strength of the Income Statements and Balance Sheets, and transparency and accuracy of reporting. The Committee recommends any actions it deems appropriate to the Board for its consideration.

Composition

- Membership: The Audit, Risk Management and Compliance Committee comprises at least three independent non-executive members of the Board, appointed by the Board, each of whom the Board has determined has no material relationship with the Company and each of whom is otherwise "independent".

- Qualifications: All members have appropriate business and financial expertise to act effectively as members of the Committee, as determined by the Board.
- Chair: The Chair of the Committee is an independent non-executive Director who is not the Chair of the Board.
- Secretary: The Secretary of the Audit Committee is appointed by the Board and has responsibility for circulating minutes and matters arising from each meeting to all members of the Committee and the Board.

Access and reporting

- Direct Access: The Audit, Risk Management and Compliance Committee maintains direct, unfettered access to external auditors, internal auditors and management. The Committee meets regularly with external and internal auditors and the Board and Committee meet with the external and internal auditors, at least once a year, without any management present. The Committee has full access to the Group's records and personnel. The Committee Chair commits additional time and may meet with the CEO, the CFO, senior management and external and internal auditors between Committee meetings to discuss and review matters relating to Committee functions as appropriate.
- Reports: The key issues and reports discussed at each Committee meeting are reported to the Board by the Chair of the Committee at the immediately following Board meeting. The Committee's Charter includes providing periodical reports to the Board on the most significant risks facing the Group and the mitigation strategies and practices adopted by management.

Responsibilities

The Committee reviews and approves, annually, the overall audit strategy of the Group which uses a risk framework to identify, assess and assign accountability for risk and audit procedures. This ensures that the activities of external and internal audit are focused and coordinated and that there is no duplication of effort.

- Risk Management: The Committee assists the Board in overseeing managements actions in the evaluation, management and reporting of material operational, financial compliance and strategic risks.
- Accounting Standards and Quality: The Committee oversees the adequacy and effectiveness of the Group's accounting and financial policies and controls and risk management systems and seeks assurance of compliance with relevant regulatory and statutory requirements.
- Financial Reports: The Committee oversees the Group's financial reporting processes and reports on the results of its activities to the Board. Specifically, the Committee reviews with management and the external auditor, the Group's annual and interim Financial Statements and Reports to shareholders.
- Internal Controls: The Committee examines the adequacy of the nature, extent and effectiveness of the internal audit control processes of the Group.
- Compliance: The Committee assists the Board in fulfilling its compliance responsibilities and oversees and reviews the Group compliance framework and its effectiveness. The Committee also assists management to foster and support a compliance culture.
- Special Reviews: The Committee undertakes other special activities as requested by the Board.
- Independent Advice: The Committee has the authority to engage independent legal, accounting and other advice to assist it to carry out its duties.
- Complaint Handling Procedures: The Committee has established procedures to review complaints received by the Company concerning accounting and other matters which fall within the scope of its Charter, including any confidential and anonymous submissions by employees.

External audit appointment and supervision

- Appointment: The Committee nominates the external auditor to the Board and this appointment is reviewed every three years. External audit performance is reviewed annually.
- Partner Rotation: The Company requires the position of the lead client service audit partner to rotate every five years.
- Independence: Review and monitor the independence of the external auditor. The Company will not invite to be appointed as Directors any ex-audit partners. Further, any ex-partners or senior personnel who may be proposed for appointment in a management position will be subject to Board approval.
- Services: The Committee reviews additional audit and non-audit services by external auditors for appropriateness against an established framework.

- Consulting: The Committee reviews all non-audit-related "consulting" tenders and submissions from the accounting firms. However, the Committee has not set any nominal "cap" on the level of non-audit services to be performed by the external auditors, as they consider that this may restrict the ability for the Company to access the best advisors for the particular task. The Committee has procedures to review proposed services by the providers of the external audit which are unrelated to audit assurance activities.
- Audit Plans: Each year, the Committee reviews and approves the overall scope and plans for the external audit activities, including staffing and fees.
- Audit Reports: The Committee reviews all audit reports provided by the external auditor.

Internal audit appointment and supervision

- Appointment: The Committee is involved in the performance, assessment and appointment or termination of the Head of Internal Audit, who reports to the Group Managing Director.
- Audit Plans: The Committee reviews the overall scope, annual plans and budget for internal audit activities and oversees the alignment of risk management programs and internal audit activities.
- Reports: The Committee reviews all key internal audit reports.
- Access: The Committee has regular direct access to the Head of Internal Audit.
- Resourcing: The Committee ensures that the internal audit function is adequately resourced to deliver the approved annual audit plan.
- Independence: The Committee reviews the independence of the Internal Audit function and that it is not involved in executive decision-making.

Compliance

- Continuous Disclosure: The Committee reviews detailed policies and procedures designed to ensure compliance with the ASX Listing Rules in respect of continuous disclosure.
- CEO/CFO Certification: The Committee approves the scope of risk management and internal controls to be covered by the CEO/CFO Certification and satisfies itself that the underlying certification is appropriate.
- Legal Compliance/Regulatory Matters: The Committee receives reports and recommendations on significant legal, compliance or regulatory matters that may have a material effect on the financial statements or compliance policies.

5 MAKE TIMELY AND BALANCED DISCLOSURES

The Company has detailed policies and procedures designed to ensure compliance with the ASX Listing Rules continuous disclosure requirements and accountability at senior management level for that compliance. A summary of these policies and procedures is available on the Company's website.

6 RESPECT THE RIGHTS OF SHAREHOLDERS

The Company is committed to keeping shareholders fully informed of significant developments and activities of the Company. This commitment is delivered through the Company's website (www.woolworthslimited.com.au) which includes financial and shareholder information that is updated regularly to ensure transparency and a high level of communication of the Company's operations and financial situation, to the extent that this information is not commercially sensitive.

Information available to shareholders includes, but is not limited to, the Company's annual reports, half-yearly reports, quarterly sales results, share price updates, dividend history and all other ASX announcements by the Company.

The Board requests the external auditor to attend each Annual General Meeting of the Company and to be available to answer shareholder questions about the conduct of the audit, preparation and content of the auditor's report, the accounting policies adopted by management and auditor independence.

7 RECOGNISE AND MANAGE RISK

Risk management

Woolworths has a sound system of risk management and internal control. It has a risk management policy framework and governance structure designed to ensure that the risks of conducting business are properly managed.

Management is responsible to the Board for identifying, managing, reporting upon and implementing measures to address risk.

The Board oversees and reviews the effectiveness of risk management in the organisation and is assisted and advised in this role by its Corporate Governance Committee, Audit Risk Management and Compliance Committee and People Policy Committee. Further, internal audit and management provides regular compliance assurance reports to the Board and its Committees.

Certification

In complying with CGC Recommendation 7.2, the CEO and CFO state to the Board in writing that the integrity of Financial Statements is founded on sound systems of risk management and internal compliance and control which implements the policies adopted by the Board and that the Company's risk management and internal compliance and control systems are operating efficiently and effectively in all material respects. In addition, in the current period, certification by the CEO and CFO stating whether:

- the financial records of the entity for the financial year have been properly maintained in accordance with section 286 of the Corporations Act;
- the financial statements, and the notes to the financial statements, for the financial year, comply with the relevant accounting standards; and
- the financial statements and the notes for the financial year give a true and fair view;

is required in accordance with the Corporations Act and has been received by the Directors.

The Board's role in certification includes:

- determining the scope of risk management and internal control to be covered by the CEO/CFO certification;
- confirming the benchmark criteria – the Company uses the criteria contained in the Committee of Sponsoring Organizations of the Treadway Commission framework upon which an assessment of the effectiveness of internal controls will be based: and
- satisfying itself that the process underlying certification is appropriate and that the CEO and CFO are justified in providing their certification.

8 ENCOURAGE ENHANCED PERFORMANCE

The Chair is responsible for monitoring the contribution of individual Directors and counselling them on any areas which might help improve Board performance. This has worked well in the past and the Board engages external assistance, as appropriate, in reviewing this process. The performance evaluation of key executives is undertaken by the CEO in conjunction with the People Policy Committee.

9 REMUNERATE FAIRLY AND RESPONSIBLY

People Policy Committee

CGC Recommendation 9.2 proposes that the Board establishes a Remuneration Committee. The Board has established a People Policy Committee which, amongst other matters, has responsibilities commensurate with a Remuneration Committee.

The Remuneration Committee's recommended responsibilities include a review of and recommendations to the Board on:

- executive remuneration and incentive policies;
- the remuneration packages of senior management;
- the Company's recruitment, retention and termination policies and procedures for senior management evaluation and assessment;
- incentive schemes;
- superannuation arrangements; and
- the remuneration framework for Directors.

The People Policy Committee has responsibilities in relation to each of these matters, except superannuation which is the responsibility of the Superannuation Policy Committee.

The Committee works closely with management to review processes and programs to ensure Remuneration Policy is implemented. Accordingly, management provides the Committee independent external advice on key remuneration issues, as required. The Committee acts on behalf of the Board and shareholders to ensure that in relation to its human resources, the Company:

- establishes and implements a human resources strategy to ensure that appropriately talented and trained people are available to achieve the Business Strategy;
- undertakes the appropriate performance management, succession planning and development activities and programs;
- provides effective remuneration policies having regard to the creation of value for shareholders and the external remuneration market;
- provides a safe working environment for all employees;
- complies with all legal and regulatory requirements and principles of good governance; and
- reports to shareholders in line with required standards.

The People Policy Committee of Directors comprises non-executive Directors, who at the date of the Report are: Dr R S Deane (Chair), Prof A E Clarke and Mr J A Strong. Ms D J Grady was the Chair until the conclusion of the meeting of the Committee in August 2006, following which she retired from the Committee and Dr R S Deane became the Chair of the Committee. Their attendance at meetings of the Committee is set out on page 41 of the Directors' Report.

Remuneration Report

In accordance with the Corporations Act 2001 (section 300A) disclosures in relation to Director and executive remuneration are included in a separate component of the Directors' Report, entitled Remuneration Report. The Remuneration Report is set out from page 42 to 57. Full details of the Company's remuneration philosophy, structure, including fixed and variable remuneration, and quantum are detailed in the Remuneration Report.

Employee share plans

The Company has established various Plans which have provided for the allocation of shares to over 45,000 of its permanent employees. Details of these Plans are set out in Note 24 to the Financial Statements "Employee Benefits".

The Plans are aimed at aligning Woolworths' employee interests with those of other Woolworths shareholders.

10 RECOGNISE THE LEGITIMATE INTERESTS OF STAKEHOLDERS

Corporate conduct

In addition to the Directors' Policy Statements set out on page 62 of this Report, the Board has adopted a Corporate Governance Manual which provides for the Board's endorsement of the Company's corporate governance policies applicable to all levels of Management in the following key areas:

1 Code of Conduct/Ethics;

2 Trade Practices/Fair Trading Practices;

3 Tendering and Supply arrangements;

4 Gifts and Gratuities/Political Donations;

5 Occupational Health and Safety/Discrimination;

6 Equal Employment Opportunity;

7 Continuous Disclosure;

8 Compliance;

9 Trading in the Company's Securities; and

10 Conflicts of Interest/Duties

The policies which have been incorporated in this Code of Conduct generally apply to all employees and set out the standards within which they are expected to act. The policies are aimed at the maintenance of standards of honesty, integrity and fair dealing by all employees in their dealings with customers, suppliers, the community, competitors and each other in the performance of their duties and responsibilities.

2006 FINANCIAL REPORT TO SHAREHOLDERS

Contents

FIVE YEAR SUMMARY

	AIFRS 2006	AIFRS 2005	AGAAP 2005	AGAAP 2004	AGAAP 2003	AGAAP 2002
Weeks	*52*	*52*	*52*	*52*	*52*	*53*
INCOME STATEMENT						
Sales ($m)						
Food and Liquor[1]	**28,063.0**	23,569.6	23,569.6	21,997.6	21,039.0	19,595.0
Petrol	**4,390.4**	3,308.4	3,308.4	2,194.9	1,710.5	1,119.3
Total Supermarkets	**32,453.4**	26,878.0	26,878.0	24,192.5	22,749.5	20,714.3
BIG W	**3,119.1**	2,908.7	2,908.7	2,717.9	2,500.3	2,280.5
Consumer Electronics	**1,167.1**	1,007.5	1,007.5	886.3	791.2	659.0
Total General Merchandise	**4,286.2**	3,916.2	3,916.2	3,604.2	3,291.5	2,939.5
Hotels	**849.9**	415.8	415.8	–	–	–
	37,589.5	31,210.0	31,210.0	27,796.7	26,041.0	23,653.8
Wholesale	**144.7**	142.5	142.5	137.2	280.4	819.2
Total Group	**37,734.2**	31,352.5	31,352.5	27,933.9	26,321.4	24,473.0
Earnings before interest and tax ($m)						
Food and Liquor[1]	**1,394.9**	1,091.5	1,077.2	941.7	825.1	734.7
Petrol	**53.1**	36.2	36.3	18.6	29.9	12.7
Total Supermarkets	**1,448.0**	1,127.7	1,113.5	960.3	855.0	747.4
BIG W	**123.1**	118.3	118.0	116.2	103.7	93.5
Consumer Electronics	**64.0**	54.5	51.8	44.1	37.0	28.0
Total General Merchandise	**187.1**	172.8	169.8	160.3	140.7	121.5
Hotels	**151.1**	52.8	54.9	–	–	–
Total trading operations	**1,786.2**	1,353.3	1,338.2	1,120.6	995.7	868.9
Net property income	**18.3**	21.2	20.3	21.7	26.6	34.2
Head office overheads	**(84.1)**	(74.9)	(77.9)	(79.0)	(76.7)	(77.8)
Total unallocated[2]	**(65.8)**	(53.7)	(57.6)	(57.3)	(50.1)	(43.6)
	1,720.4	1,299.6	1,280.6	1,063.3	945.6	825.3
Wholesale	**1.8**	2.5	2.4	1.8	0.1	7.4
Total Group	**1,722.2**	1,302.1	1,283.0	1,065.1	945.7	832.7
EBIT to sales (%)						
Total Supermarkets	**4.46**	4.19	4.14	3.97	3.76	3.61
BIG W	**3.95**	4.07	4.06	4.28	4.15	4.10
Consumer Electronics	**5.48**	5.41	5.14	4.98	4.68	4.25
Hotels	**17.78**	12.70	13.20	–	–	–
Wholesale	**1.25**	1.75	1.68	1.31	0.04	0.90
Total	**4.56**	4.16	4.09	3.81	3.59	3.40

Weeks	AIFRS 2006 52	AIFRS 2005 52	AGAAP 2005 52	AGAAP 2004 52	AGAAP 2003 52	AGAAP 2002 53
INCOME STATEMENT ($m)						
Sales	**37,734.2**	31,352.5	31,352.5	27,933.9	26,321.4	24,473.0
Cost of goods sold	**(28,289.6)**	(23,550.2)	(23,549.9)	(20,975.5)	(19,703.0)	(18,296.0)
Gross profit	**9,444.6**	7,802.3	7,802.6	6,958.4	6,618.4	6,177.0
Gross profit margin (%)	***25.03***	*24.89*	*24.89*	*24.91*	*25.14*	*25.24*
Cost of doing business (CODB)	**(7,722.4)**	(6,500.2)	(6,519.6)	(5,893.3)	(5,672.7)	(5,344.3)
CODB (%)	***20.47***	*20.73*	*20.80*	*21.10*	*21.55*	*21.84*
Selling, general and admin expenses (excluding rent, depreciation and amortisation)	**(6,130.1)**	(5,184.0)	(5,153.7)	(4,675.9)	(4,515.7)	(4,288.3)
EBITDAR	**3,314.5**	2,618.3	2,648.9	2,282.5	2,102.7	1,888.7
EBITDAR margin (%)	***8.78***	*8.35*	*8.45*	*8.17*	*7.99*	*7.72*
Rent (including fitout rent)	**(1,070.1)**	(900.2)	(904.9)	(809.8)	(758.7)	(705.0)
EBITDA	**2,244.4**	1,718.1	1,744.0	1,472.7	1,344.0	1,183.7
EBITDA margin (%)	***5.95***	*5.48*	*5.56*	*5.27*	*5.11*	*4.84*
Depreciation	**(522.2)**	(416.0)	(419.2)	(379.6)	(370.9)	(327.7)
Amortisation of goodwill	**–**	–	(41.8)	(28.0)	(27.4)	(23.3)
EBIT	**1,722.2**	1,302.1	1,283.0	1,065.1	945.7	832.7
EBIT margin (%)	***4.56***	*4.16*	*4.09*	*3.81*	*3.59*	*3.40*
Interest	**(201.8)**	(104.9)	(108.5)	(47.3)	(39.7)	(50.5)
WINs and Woolworths Notes interest	**(47.9)**	(45.2)	(45.2)	(42.9)	(41.1)	(39.8)
Profit before tax and abnormal items	**1,472.5**	1,152.0	1,129.3	974.9	864.9	742.4
Taxation	**(445.8)**	(334.8)	(337.7)	(286.7)	(255.0)	(218.5)
Profit after tax and before abnormal items	**1,026.7**	817.2	791.6	688.2	609.9	523.9
Minority interest	**(12.1)**	(1.0)	(1.1)	(0.4)	(0.4)	(0.7)
Profit attributable to members of Woolworths Limited after tax and servicing income notes	**1,014.6**	816.2	790.5	687.8	609.5	523.2
BALANCE SHEET						
Funds employed ($m)						
Inventory	**2,316.1**	1,969.6	1,977.3	1,847.0	1,843.1	1,838.4
Accounts payable	**(2,778.5)**	(2,339.8)	(2,335.6)	(2,176.3)	(2,078.9)	(2,000.6)
Net investment in inventory	**(462.4)**	(370.2)	(358.3)	(329.3)	(235.8)	(162.2)
Fixed assets and investments	**4,172.1**	3,425.8	3,581.9	2,758.8	2,485.0	2,366.8
Intangibles	**4,759.4**	2,046.4	2,011.4	572.3	555.3	545.0
Receivables	**1,174.4**	611.9	689.9	423.0	543.1	496.6
Other creditors	**(1,838.7)**	(1,483.8)	(1,457.8)	(1,267.1)	(1,186.1)	(989.6)
Total funds employed[3]	**7,804.8**	4,230.1	4,467.1	2,157.7	2,161.5	2,256.6
Net tax balances	**252.3**	182.2	147.2	58.7	21.3	(7.9)
Provision for dividend[4]	**–**	–	–	–	–	(188.9)
Net assets employed	**8,057.1**	4,412.3	4,614.3	2,216.4	2,182.8	2,059.8
Net repayable debt[5]	**(3,799.5)**	(2,412.1)	(2,417.2)	(163.9)	(359.6)	(237.3)
Net assets	**4,257.6**	2,000.2	2,197.1	2,052.5	1,823.2	1,822.5
Noteholders' equity (WINs)[6]	**–**	–	–	583.0	583.0	583.0
Minority interest	**229.8**	26.0	33.3	5.2	4.8	4.4
Shareholders' equity	**4,027.8**	1,974.2	2,163.8	1,464.3	1,235.4	1,235.1
Total equity	**4,257.6**	2,000.2	2,197.1	2,052.5	1,823.2	1,822.5

FIVE YEAR SUMMARY

Weeks	AIFRS 2006 52	AIFRS 2005 52	AGAAP 2005 52	AGAAP 2004 52	AGAAP 2003 52	AGAAP 2002 53
CASH FLOW ($M)						
EBITDA	**2,244.4**	1,718.1	1,744.0	1,472.7	1,344.0	1,183.7
Movement in net investment in inventory	**61.4**	(44.3)	(44.0)	97.3	76.1	247.8
Other operating cash flows	**127.8**	100.4	80.8	69.2	155.5	38.7
Net interest paid (including cost of income notes)	**(253.2)**	(161.5)	(161.5)	(95.7)	(82.3)	(97.4)
Tax paid	**(475.3)**	(398.3)	(398.3)	(324.1)	(283.8)	(238.1)
Operating cash flow	**1,705.1**	1,214.4	1,221.0	1,219.4	1,209.5	1,134.7
Payments for property, plant and equipment	**(1,411.7)**	(1,180.5)	(1,180.5)	(718.7)	(593.4)	(596.7)
Proceeds on disposal of property, plant and equipment	**328.7**	97.7	97.7	138.1	114.5	203.8
Major acquisitions – debt funded	**(1,464.7)**	(1,208.8)	(1,208.8)	–	–	(257.0)
Other investing cash flows	**(178.1)**	(76.7)	(76.6)	1.4	(65.3)	(93.9)
Free cash flow	**(1,020.7)**	(1,153.9)	(1,147.2)	640.2	665.3	390.9
Movement in gross debt	**1,078.6**	1,312.7	1,312.5	(133.7)	118.3	(114.4)
Dividends paid	**–**	(201.9)	(201.9)	(346.9)	(307.3)	(251.5)
Buy-back of shares	**–**	–	–	(140.9)	(534.1)	–
New shares issued	**40.9**	128.0	120.0	42.9	50.1	14.0
Effects of exchange rate changes on balance of cash held in foreign currencies	**(6.7)**	–	–	–	–	–
Net cash flow	**92.1**	84.9	83.4	61.6	(7.7)	39.0

Weeks	*AIFRS* *2006* *52*	*AIFRS* *2005* *52*	*AGAAP* *2005* *52*	*AGAAP* *2004* *52*	*AGAAP* *2003* *52*	*AGAAP* *2002* *53*
SHAREHOLDER VALUE						
ROFE (pre-tax return on funds employed) (%)[7]						
Normal	**28.62**	42.64	38.73	49.32	42.81	38.07
Du Pont analysis (abnormals excluded) (%)						
EBIT to sales	**4.56**	4.16	4.09	3.81	3.59	3.40
Service burden[8]	**85.50**	88.47	88.02	91.53	91.46	89.15
Tax burden[9]	**69.72**	70.94	70.10	70.59	70.52	70.57
Asset turn[10]	**3.41**	4.24	4.15	4.64	4.53	4.53
Financial leverage[11]	**3.69**	4.62	4.16	4.46	4.70	4.97
Return on equity[12]	**33.81**	50.93	43.57	50.95	49.34	48.13
Earnings per share						
Ordinary share price closing ($)	**19.36**	16.48	16.48	11.62	12.68	13.15
Market capitalisation ($m)	**22,881.9**	17,493.2	17,493.2	11,874.8	12,945.0	13,797.0
Weighted average shares on issue	**1,116.3**	1,030.6	1,043.7	1,020.5	1,049.2	1,041.3
Normal basic EPS (cents per share)[13]	**90.89**	79.19	75.74	67.40	58.09	50.24
EPS pre-goodwill amortisation (cents per share)	**90.89**	79.19	79.75	70.14	60.70	52.48
Interim dividend ($m)	**325.9**	250.9	250.9	213.6	192.0	157.0
Interim dividend (cents per share)	**28.0**	24.0	24.0	21.0	18.0	15.0
Final dividend ($m)[14]	**367.1**	287.2	287.2	248.9	215.1	188.9
Final dividend (cents per share)	**31.0**	27.0	27.0	24.0	21.0	18.0
Total dividend ($m)	**693.0**	538.2	538.2	462.5	407.1	345.9
Total dividend (cents per share)	**59.0**	51.0	51.0	45.0	39.0	33.0
Payout ratio (before abnormals) (%)	**68.30**	65.94	68.01	67.24	66.79	66.11
Price/earnings ratio (times)	**21.3**	20.8	21.8	17.2	21.8	26.2
Price/cash flow ratio (times)	**12.67**	13.99	14.09	9.76	11.03	12.06
Growth rates (% increase)						
Sales	**20.35**	12.24	12.24	6.13	7.55	17.01
Sales per equivalent week	**20.35**	12.24	12.24	6.13	9.62	14.90
Sales per square metre (normalised 52 weeks)[15]	**1.14**	1.10	1.10	1.41	3.73	4.45
EBITDA	**30.64**	16.66	18.42	9.58	13.54	16.46
EBIT	**32.26**	22.25	20.46	12.63	13.57	17.84
Profit before tax and abnormal items	**27.82**	18.17	15.84	12.72	16.50	14.96
Profit after tax and servicing income notes	**24.30**	18.67	14.93	12.85	16.49	22.24
Normal basic EPS	**14.76**	17.50	12.37	16.03	15.63	25.10
FINANCIAL STRENGTH						
Service cover ratio (times)[16]	**6.90**	8.67	8.35	1.81	11.70	9.22
Fixed charges cover (times)	**2.50**	2.48	2.48	2.52	2.50	2.32
Sales to inventory (%)[17]	**17.61**	16.46	16.40	15.14	14.30	13.71
Capital expenditure to EBITDA (%)	**62.90**	68.71	67.69	48.80	44.15	50.42
Operating cash flow per share	**1.53**	1.18	1.17	1.19	1.15	1.09
Repayable gearing (%)[18]	**47.16**	54.67	52.38	7.39	16.47	11.52
Serviced gearing (%)[19]	**47.16**	54.67	52.38	33.70	43.18	39.82
Current assets to current liabilities (%)	**84.54**	81.06	81.60	85.98	80.79	83.55

FIVE YEAR SUMMARY

	AIFRS 2006	AIFRS 2005	AGAAP 2005	AGAAP 2004	AGAAP 2003	AGAAP 2002
PRODUCTIVITY						
Stores (number)						
Supermarkets						
NSW and ACT	**238**	233	233	234	228	227
Queensland	**161**	147	147	143	141	130
Victoria	**182**	183	183	179	175	171
South Australia and Northern Territory	**69**	69	69	63	63	60
Western Australia	**79**	64	64	60	58	59
Tasmania	**27**	27	27	29	29	29
Supermarkets in Australia	**756**	723	723	708	694	676
Supermarkets in New Zealand	**198**	–	–	–	–	–
Total Supermarkets	**954**	723	723	708	694	676
Freestanding Liquor	**204**	192	192	192	164	139
ALH Group retail outlets	**432**	382	382	–	–	–
Caltex/WOW Petrol	**131**	117	117	44	–	–
WOW Petrol – Australia	**360**	339	339	315	287	256
WOW Petrol/Convenience – New Zealand	**22**	–	–	–	–	–
Total Supermarket division	**2,103**	1,753	1,753	1,259	1,145	1,071
General Merchandise						
BIG W	**129**	120	120	111	104	96
Dick Smith Electronics	**223**	202	202	164	153	147
Dick Smith Electronics PowerHouse	**20**	18	18	18	16	15
Tandy	**123**	122	122	148	179	204
Total General Merchandise	**495**	462	462	441	452	462
Hotels (ALH Group 2006 includes eight clubs)	**250**	169	169	–	–	–
Total Group	**2,848**	2,384	2,384	1,700	1,597	1,533

	June 2005	Opened/Acquired	Closed	June 2006
Stores (movement)				
Australian Supermarkets				
New South Wales	233	8	(3)	**238**
Queensland	147	14	–	**161**
Victoria	183	2	(3)	**182**
South Australia and Northern Territory	69	–	–	**69**
Western Australia	64	17	(2)	**79**
Tasmania	27	–	–	**27**
Total Australian Supermarkets	723	41	(8)	**756**
Supermarkets – New Zealand	–	198	–	**198**
Total Supermarkets	723	239	(8)	**954**
Freestanding Liquor	192	17	(5)	**204**
ALH Group retail liquor outlets[20]	382	79	(29)	**432**
Caltex/WOW Petrol	117	15	(1)	**131**
WOW Petrol – Australia	339	21	–	**360**
WOW Petrol/Convenience – New Zealand	–	22	–	**22**
Total Supermarket Division	1,753	393	(43)	**2,103**
General Merchandise				
BIG W	120	9	–	**129**
Dick Smith Electronics	202	21	–	**223**
Dick Smith PowerHouse	18	2	–	**20**
Tandy	122	8	(7)	**123**
Total General Merchandise	462	40	(7)	**495**
Hotels (ALH Group)[20]	169	82	(1)	**250**
Total Group movement	2,384	515	(51)	**2,848**

Weeks	AIFRS 2006 52	AIFRS 2005 52	AGAAP 2005 52	AGAAP 2004 52	AGAAP 2003 52	AGAAP 2002 53
Area (sqm)						
Supermarkets (Australia)[21]	**1,780,086**	1,678,343	1,678,343	1,623,530	1,574,640	1,499,696
General Merchandise	**843,316**	783,685	783,685	731,788	695,338	640,832
Total	**2,623,402**	2,462,028	2,462,028	2,355,318	2,269,978	2,140,528
Sales per square metre (normalised 52 weeks) ($)						
Supermarkets (Australia)[21]	**13,824.1**	13,787.7	13,787.7	13,549.2	13,361.1	12,819.7
General Merchandise	**5,082.5**	4,997.2	4,997.2	4,925.2	4,733.7	4,513.5
Total	**11,014.0**	10,989.6	10,989.6	10,869.8	10,718.4	10,332.9

NOTES TO THE FIVE YEAR SUMMARY

(1)
Includes FAL results since 2 November 2005 and Taverner retail sales from 6 February 2006.

(2)
Unallocated expense represents corporate costs relating to the Woolworths Group as a whole, and profits derived by the Group's corporate property division including the disposal of development properties. These amounts are not identifiable against any particular operating segment and accordingly they remain unallocated, as required by Accounting Standard AASB 114 Segment Reporting.

(3)
Funds employed is net assets excluding net tax balances, provision for dividends and net debt, and assets and liabilities as a result of hedging per AASB 139 Financial Instruments: Recognition and Measurement.

(4)
Following the introduction of AASB 1044 Provisions, Contingent Liabilities and Contingent Assets; effective since the year ended 29 June 2003, (superseded by AASB 137 Provisions, Contingent Liabilities and Contingent Assets from 1 July 2004), no provision for the final dividend has been raised as the dividend has not been declared, determined or publicly recommended as at the balance date.

(5)
Net repayable debt is gross debt less cash on hand, cash at bank and cash on short-term deposit.

(6)
On 30 June 2004, the Company amended the WINs Trust Deed. As a result of these amendments the outstanding balance of $600.0 million, including issue costs of $17.0 million, is no longer classified as part of Shareholders' Equity in the Balance Sheet. The principal amount of $600.0 million has been reclassified as a non-current liability and the $17.0 million of issue costs has been recorded as an adjustment to retained earnings in accordance with Australian Accounting Standards.

(7)
Return on funds employed (ROFE) is EBIT as a percentage of average funds employed for the year.

(8)
Service burden is net operating profit before income tax expressed as a percentage of EBIT before abnormal items.

(9)
Tax burden is normal profit after income tax expressed as a percentage of normal profit before income tax.

(10)
Asset turn is total sales divided by average total assets for the year.

(11)
Financial leverage is average total assets divided by average shareholders' funds for the year.

(12)
Return on equity is profit after income tax attributable to shareholders, divided by average shareholders' funds for the year.

(13)
Normal basic earnings per share (Normal basic EPS) is profit after tax and servicing WINs before abnormal items divided into the weighted average number of ordinary shares on issue during the period. The weighted average number of shares on issue has been calculated in accordance with Accounting Standard AASB 133 Earnings per Share or Accounting Standard AASB 1027 Earnings per Share, as relevant.

(14)
The current year figure represents the final dividend value given the shares on issue as at balance date. This figure will change if there are any shares issued between balance date and the ex-dividend date. See Note 6 for final dividend.

(15)
Excludes Hotels and ALH Group retail in all periods. Excludes FAL in 2006 due to its acquisition being completed in November 2005.

(16)
Service cover ratio is EBIT divided by the sum of interest and WINs interest.

(17)
Sales to inventory is total sales for the period divided by average inventory.

(18)
Repayable gearing is net repayable debt divided by net repayable debt plus total equity.

(19)
Serviced gearing is net repayable debt plus WINs divided by net repayable debt plus total equity.

(20)
Increase during the year includes sites acquired as part of the Taverner and BMG acquisitions.

(21)
Supermarkets excludes Petrol and ALH Group retail outlets.

INCOME STATEMENTS

For the 52 weeks ended 25 June 2006	Note	Consolidated 2006 $m	Consolidated 2005[1] $m	Woolworths Limited 2006 $m	Woolworths Limited 2005[1] $m
Revenue from the sale of goods	2a	**37,734.2**	31,352.5	**27,923.1**	26,027.8
Other operating revenue	2a	**115.5**	128.7	**99.8**	120.2
Total revenue from operations		**37,849.7**	31,481.2	**28,022.9**	26,148.0
Cost of sales		**(28,405.1)**	(23,678.9)	**(21,125.0)**	(19,704.2)
Gross profit		**9,444.6**	7,802.3	**6,897.9**	6,443.8
Other revenue	2b	**128.2**	95.2	**85.1**	75.3
Other income	2c	**16.7**	10.2	**–**	4.9
Share of profit in associated company	17	**–**	2.5	**–**	–
Branch expenses		**(6,099.0)**	(5,029.9)	**(4,365.9)**	(4,109.7)
Administration expenses		**(1,768.3)**	(1,578.2)	**(1,398.3)**	(1,330.5)
Earnings before interest and tax		**1,722.2**	1,302.1	**1,218.8**	1,083.8
Financial expense	3	**(266.8)**	(164.1)	**(261.9)**	(122.6)
Financial income	3	**17.1**	14.0	**140.0**	34.5
Net financing cost		**(249.7)**	(150.1)	**(121.9)**	(88.1)
Net profit before income tax expense		**1,472.5**	1,152.0	**1,096.9**	995.7
Income tax expense	5a	**(445.8)**	(334.8)	**(316.4)**	(288.4)
Profit after income tax expense		**1,026.7**	817.2	**780.5**	707.3
Net profit attributable to:					
Equity holders of the parent entity		**1,014.6**	816.2	**780.5**	707.3
Minority interest		**12.1**	1.0	**–**	–
Profit for the period		**1,026.7**	817.2	**780.5**	707.3
Earnings per share (EPS)					
Basic EPS (cents per share)	21	**90.89**	79.19	**–**	–
Diluted EPS (cents per share)	21	**90.33**	78.94	**–**	–
Weighted average number of shares used in the calculation of basic EPS (million)	21	**1,116.3**	1,030.6	**–**	–

The income statements should be read in conjunction with the notes to the financial statements set out on pages 80 to 156.

Note

(1)
Results for the 52 weeks ended 26 June 2005 have been restated to comply with AIFRS.

STATEMENTS OF RECOGNISED INCOME AND EXPENSE

For the 52 weeks ended 25 June 2006	Note	Consolidated 2006 $m	Consolidated 2005[1] $m	Woolworths Limited 2006 $m	Woolworths Limited 2005[1] $m
Movement in translation of foreign operations taken to equity	19	**(275.9)**	(0.1)	**–**	–
Cash flow hedges		**(52.6)**	–	**(52.6)**	–
Revaluation of intangibles		**–**	46.8	**–**	–
Actuarial losses on defined benefit plans		**(15.0)**	(10.0)	**(15.0)**	(10.0)
Tax effect of items recognised directly to equity	5b	**(6.9)**	(11.0)	**6.4**	3.0
Net income/(expense) recognised directly in equity		**(350.4)**	25.7	**(61.2)**	(7.0)
Profit for the period		**1,026.7**	817.2	**780.5**	707.3
Total recognised income and expense for the period		**676.3**	842.9	**719.3**	700.3
Attributable to:					
Equity holders of the parent		**664.2**	825.5	**719.3**	700.3
Minority interest		**12.1**	17.4	**–**	–
		676.3	842.9	**719.3**	700.3

The statements of recognised income and expense should be read in conjunction with the notes to the financial statements set out on pages 80 to 156.

Note

(1)
Results for the 52 weeks ended 26 June 2005 have been restated to comply with AIFRS.

BALANCE SHEETS

As at 25 June 2006	Note	Consolidated 2006 $m	Consolidated 2005[1] $m	Woolworths Limited 2006 $m	Woolworths Limited 2005[1] $m
Current assets					
Cash		**525.9**	433.8	**331.9**	313.2
Trade and other receivables	8	**1,160.4**	595.6	**328.5**	287.2
Inventories		**2,316.1**	1,969.6	**1,602.0**	1,519.0
Assets held for sale	10	**115.6**	65.4	**90.7**	0.2
Other financial assets		**2.8**	–	**2.8**	–
Total current assets		**4,120.8**	3,064.4	**2,355.9**	2,119.6
Non-current assets					
Trade and other receivables	8	**14.0**	16.2	**6,204.5**	3,485.8
Other financial assets	9	**59.5**	1.1	**3,153.5**	152.3
Property, plant and equipment	10	**4,055.8**	3,359.3	**2,200.6**	1,919.2
Intangibles	11	**4,759.4**	2,046.4	**429.0**	417.7
Deferred tax assets	5d	**336.9**	287.7	**272.8**	244.1
Total non-current assets		**9,225.6**	5,710.7	**12,260.4**	6,219.1
Total assets		**13,346.4**	8,775.1	**14,616.3**	8,338.7
Current liabilities					
Trade and other payables	12	**3,573.4**	2,916.1	**5,596.3**	2,992.6
Borrowings	14	**612.3**	235.5	**610.8**	235.0
Current tax liabilities	5c	**84.6**	105.5	**96.5**	115.9
Provisions	16	**604.0**	523.5	**481.6**	442.8
Total current liabilities		**4,874.3**	3,780.6	**6,785.2**	3,786.3
Non-current liabilities					
Borrowings	14	**3,704.0**	2,610.4	**3,696.5**	2,599.4
Other financial liabilities	13	**70.7**	–	**70.7**	–
Provisions	16	**340.7**	290.0	**296.6**	272.5
Other		**99.1**	93.9	**77.0**	86.3
Total non-current liabilities		**4,214.5**	2,994.3	**4,140.8**	2,958.2
Total liabilities		**9,088.8**	6,774.9	**10,926.0**	6,744.5
Net assets		**4,257.6**	2,000.2	**3,690.3**	1,594.2
Equity					
Issued capital	18	**2,947.8**	981.0	**2,947.8**	981.0
Shares held in trust	18	**(87.1)**	(102.2)	**(87.1)**	(102.2)
Reserves	19	**(288.6)**	31.6	**(29.0)**	15.3
Retained earnings	20	**1,455.7**	1,063.8	**858.6**	700.1
Equity attributable to the members of Woolworths Limited		**4,027.8**	1,974.2	**3,690.3**	1,594.2
Minority interest		**229.8**	26.0	**–**	–
Total equity		**4,257.6**	2,000.2	**3,690.3**	1,594.2

The balance sheets should be read in conjunction with the notes to the financial statements set out on pages 80 to 156.

Note

(1)
2005 balances have been restated to comply with AIFRS.

STATEMENT OF CASH FLOWS

For the 52 weeks ended 25 June 2006	Consolidated 2006 $m	Consolidated 2005[1] $m	Woolworths Limited 2006 $m	Woolworths Limited 2005[1] $m
Cash flows from operating activities				
Receipts from customers	**39,938.3**	33,258.8	**31,215.4**	27,609.1
Receipts from vendors and tenants	**28.7**	17.0	**4.5**	4.5
Payments to suppliers and employees	**(37,533.4)**	(31,501.6)	**(29,384.6)**	(26,138.8)
Interest and costs of finance paid	**(270.3)**	(171.9)	**(264.9)**	(130.4)
Interest received	**17.1**	10.4	**47.1**	32.1
Income tax paid	**(475.3)**	(398.3)	**(419.6)**	(371.8)
Net cash provided by operating activities	**1,705.1**	1,214.4	**1,197.9**	1,004.7
Cash flows from investing activities				
Proceeds from the sale of property, plant and equipment	**328.7**	97.7	**15.0**	16.6
Proceeds from sale of investments	**1.0**	0.5	**–**	0.5
Payments for property, plant and equipment	**(1,411.7)**	(1,180.5)	**(726.7)**	(642.1)
Payment for purchase of investments	**–**	(0.4)	**–**	–
Loans to related entities	**–**	–	**(1,908.0)**	(2,023.5)
Dividend received from related entity	**–**	6.1	**–**	2.4
Payments for purchase of businesses	**(1,643.9)**	(1,291.6)	**(22.8)**	(24.2)
Net cash used in investing activities	**(2,725.9)**	(2,368.2)	**(2,642.5)**	(2,670.3)
Cash flows from financing activities				
Proceeds from issue of equity securities	**40.9**	128.1	**40.9**	128.1
Repayment of short-term deposits	**(0.3)**	(0.2)	**–**	–
Proceeds from external borrowings	**11,089.2**	10,882.7	**11,087.6**	10,840.7
Repayment of external borrowings	**(10,010.2)**	(9,570.0)	**(9,665.2)**	(9,103.0)
Dividends paid	**–**	(201.9)	**–**	(201.9)
Net cash provided by financing activities	**1,119.6**	1,238.7	**1,463.3**	1,663.9
Net increase in cash held	**98.8**	84.9	**18.7**	(1.7)
Effects of exchange rate changes on balance of cash held in foreign currencies	**(6.7)**	–	**–**	–
Cash at the beginning of the financial period	**433.8**	348.9	**313.2**	314.9
Cash at the end of the financial period	**525.9**	433.8	**331.9**	313.2

Non-cash financing and investing activities				
In accordance with the Company's Dividend Reinvestment Plan (DRP) 100% (2005: 60%) of the dividend paid was reinvested in the shares of the Company.				
Dividends	**613.1**	499.8	**613.1**	499.8
Issuance of shares under the DRP	**(613.1)**	(297.9)	**(613.1)**	(297.9)
Net cash outflow	**–**	201.9	**–**	201.9

On 5 June 2006, the Company redeemed the Woolworths Income Notes. Of the $600.0 million redeemed, $231.3 million was rolled into the Woolworths Notes.

The Company issued shares as part of the consideration for business acquisitions as disclosed in Note 30.

The statement of cash flows should be read in conjunction with the notes to the financial statements set out on pages 80 to 156.

Note

(1)
Results for the 52 weeks ended 26 June 2005 have been restated to comply with AIFRS.

For the 52 weeks ended 25 June 2006	Consolidated 2006 $m	Consolidated 2005[1] $m	Woolworths Limited 2006 $m	Woolworths Limited 2005[1] $m
Reconciliation of Net Cash Provided by Operating Activities to Profit from Ordinary Activities after Income Tax Expense				
Profit from ordinary activities after income tax expense	**1,026.7**	817.2	**780.7**	707.3
Depreciation/amortisation charged to income statement	**522.2**	416.0	**350.1**	321.3
Impairment of receivables	**3.1**	0.9	**1.1**	0.4
Share of profit in associated company	**–**	(2.5)	**–**	–
Ineffectiveness of hedges	**(3.0)**	–	**(3.0)**	–
Share-based payments expense	**13.2**	10.2	**13.2**	10.2
Difference between defined benefit expense and cash contributions	**(9.0)**	(9.0)	**(9.0)**	(9.0)
Intercompany interest receivable	**–**	–	**(92.9)**	–
(Profit)/loss on sale of property, plant and equipment	**(16.7)**	(10.2)	**14.6**	(4.9)
Financing costs capitalised	**(3.4)**	(7.7)	**(2.9)**	(7.7)
(Increase)/decrease in deferred tax asset	**(5.3)**	(31.6)	**9.1**	(34.5)
Increase/(decrease) in current tax liability	**(27.8)**	(24.3)	**(19.2)**	(17.2)
(Increase)/decrease in trade and other receivables	**(34.1)**	(10.2)	**(18.9)**	(57.5)
(Increase)/decrease in inventories	**(107.6)**	(61.7)	**(81.5)**	(53.9)
Increase/(decrease) in trade and other payables	**169.0**	17.4	**141.9**	85.8
Increase/(decrease) in sundry creditors and provisions	**177.8**	109.9	**114.6**	64.4
Net cash provided by operating activities	**1,705.1**	1,214.4	**1,197.9**	1,004.7
Acquisition of businesses				
Details of the aggregate cash outflow relating to the acquisition of businesses and the aggregate assets and liabilities of those businesses as at the date of the acquisition were as follows:				
– property, plant and equipment	**679.1**	391.0	**10.3**	0.1
– inventories	**269.7**	69.0	**1.5**	0.8
– liquor and gaming licences and other intangibles	**393.1**	1,026.7	**8.2**	11.1
– brand names	**244.1**	13.9	**–**	–
– cash acquired	**67.4**	64.2	**–**	–
– other assets	**103.6**	58.3	**–**	–
– interest bearing liabilities	**(353.7)**	(424.1)	**–**	–
– accounts payable	**(302.2)**	(141.8)	**–**	–
– provisions	**(87.9)**	(45.1)	**–**	–
– other liabilities	**(95.5)**	(11.8)	**–**	(1.7)
– minority interests	**–**	(27.0)	**–**	–
– revaluation reserve attributable to parent entity as a result of previous ownership interest	**–**	(23.5)	**–**	–
– net assets previously equity accounted	**–**	(3.5)	**–**	–
Net assets acquired	**917.7**	946.3	**20.0**	10.3
– goodwill on acquisition	**2,315.3**	436.4	**2.8**	13.9
Fair value of net assets acquired	**3,233.0**	1,382.7	**22.8**	24.2
Analysed as follows:				
Consideration				
– equity issued	**1,330.0**	–	**–**	–
– equity issued to minority interest	**191.7**	–	**–**	–
– cash paid	**1,711.3**	1,382.7	**22.8**	24.2
	3,233.0	1,382.7	**22.8**	24.2
Cash paid	**1,711.3**	1,382.7	**22.8**	24.2
Less: cash paid during previous financial year	**–**	(26.9)	**–**	–
Less: cash balances acquired	**(67.4)**	(64.2)	**–**	–
Cash consideration paid this year	**1,643.9**	1,291.6	**22.8**	24.2

Details of acquisitions are shown at Note 30.

1 SIGNIFICANT ACCOUNTING POLICIES

Woolworths Limited (the "Company") is a company domiciled in Australia. The financial report of the Company for the 52 weeks ended 25 June 2006 comprises the Company and its subsidiaries (together referred to as the "consolidated entity") and the consolidated entity's interest in jointly controlled entities.

The financial report was authorised for issue by the Directors on 22 September 2006.

A Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with the Corporations Act, Accounting Standards and Urgent Issues Group Interpretations, and complies with other requirements of the law. Accounting Standards include Australian equivalent to International Financial Reporting Standards (AIFRS). Compliance with the AIFRS ensures that the consolidated financial statements and notes of the consolidated entity comply with International Financial Reporting Standards (IFRS). The parent entity financial statements and notes also comply with IFRS except for the disclosure requirements in IAS 32 Financial Instruments: Disclosure and Presentation as the Australian equivalent Accounting Standard, AASB 132 Financial Instruments: Disclosure and Presentation does not require such disclosures to be presented by the parent entity where its separate financial statements are presented together with the consolidated financial statements of the consolidated entity.

This is the consolidated entity's first full year financial report prepared in accordance with Australian Accounting Standards, being AIFRS and AASB 1 First-time Adoption of Australian equivalents to International Financial Reporting Standards (AASB 1). An explanation of how the transition to AIFRS has affected the reported financial position, financial performance and cash flows of the consolidated entity and the Company is provided in Note 31. This note includes reconciliations of equity and profit or loss for comparative periods reported under Australian GAAP (previous GAAP or GAAP).

In the current financial year the consolidated entity adopted AASB 132 Financial Instruments: Disclosure and Presentation (AASB 132) and AASB 139 Financial Instruments: Recognition and Measurement (AASB 139) for the first time. This change in accounting policy resulted from the election made in accordance with the transition rules contained in AASB 1, which does not require the restatement of comparative information for financial instruments within the scope of AASB 132 and AASB 139.

B Basis of preparation

The financial report is presented in Australian dollars.

The financial report is prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments, financial instruments held for trading and financial instruments classified as available-for-sale.

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with the Class Order, amounts in the financial report and Directors' Report have been rounded off to the nearest million dollars, unless otherwise stated.

The entity has elected to early adopt the following revised accounting standards:

- AASB 119 Employee Benefits (December 2004). Application date of the standard is 1 January 2006;
- AASB 2004-3 Amendments to Australian Accounting Standards (December 2004) amending AASB 119 Employee Benefits, AASB 1 First-time Adoption of Australian equivalents to International Financial Reporting Standards (July 2004), AASB 101 Presentation of Financial Statements, AASB 124 Related Party Disclosures. Application date of the standard is 1 January 2006;
- AASB 2005-1 Amendments to Australian Accounting Standards (May 2005) amending AASB 139 Financial Instruments: Recognition and Measurement. Application date of the standard is 1 January 2006;
- AASB 2005-4 Amendments to Australian Accounting Standards (June 2005) amending AASB 139 Financial Instruments: Recognition and Measurement, AASB 132 Financial Instruments: Disclosure and Presentation, AASB 1 First-time Adoption of Australian equivalents to International Financial Reporting Standards (July 2004), AASB 1023 General Insurance Contracts and AASB 1038 Life Insurance Contracts. Application date of the standard is 1 January 2006;
- AASB 2005-5 Amendments to Australian Accounting Standards (June 2005) amending AASB 1 First-time Adoption of Australian equivalents to International Financial Reporting Standards (July 2004) and AASB 139 Financial Instruments: Recognition and Measurement. Application date of the standard is 1 January 2006;
- AASB 2005-6 Amendments to Australian Accounting Standards (June 2005) amending AASB 3 Business Combinations. Application date of the standard is 1 January 2006;
- AASB 2005-11 Amendments to Australian Accounting Standards (September 2005) amending AASB 101 Presentation of Financial Statements, AASB 112 Income Taxes, and AASB 132 Financial Instruments: Disclosure and Presentation, AASB 133 Earnings per Share, AASB 139 Financial Instruments: Recognition and Measurement and AASB 141 Agriculture. Application date of the standard is 31 December 2005;

- AASB 2006-1 Amendments to Australian Accounting Standards (January 2006) amending AASB 121 The Effects of Changes in Foreign Exchange Rates (July 2004). Application date of the standard is 1 January 2005; and
- UIG 4 Determining whether an Arrangement contains a Lease. Application date of the standard is 1 January 2006.

Issued standards not early adopted
The following standards and amendments were available for early adoption but have not been applied by the consolidated entity in these Financial Statements:

- AASB 7 Financial instruments: Disclosure (August 2005) replacing the presentation requirements of financial instruments in AASB 132. AASB 7 is applicable for annual reporting periods beginning on or after 1 January 2007;
- AASB 2005-10 Amendments to Australian Accounting Standards (September 2005) makes consequential amendments to AASB 132 Financial Instruments: Disclosures and Presentation, AASB 101 Presentation of Financial Statements, AASB 114 Segment Reporting, AASB 117 Leases, AASB 133 Earnings per Share, AASB 139 Financial Instruments: Recognition and Measurement, AASB 1 First-time Adoption of Australian equivalents to International Financial Reporting Standards, AASB 4 Insurance Contracts, AASB 1023 General Insurance Contracts and AASB 1038 Life Insurance Contracts, arising from the release of AASB 7. AASB 2005-10 is applicable for annual reporting periods beginning on or after 1 January 2007;
- AASB 2005-9 Amendments to Australian Accounting Standards (September 2005) amending AASB 4 Insurance Contract, AASB 1023 General Insurance Contracts, and AASB 132 Financial Instruments: Disclosure and Presentation, and AASB 139 Financial Instruments. The initial application is not expected to impact the results with the exception of the requirement to recognise any financial guarantees at fair value. Woolworths is currently reviewing the application of this requirement to its business. AASB 2005-9 is applicable to reporting periods beginning on or after 1 January 2006;
- UIG 8 – Scope of AASB 2. Application date is for reporting periods beginning on or after 1 May 2006; and
- UIG 9 – Reassessment of Embedded Derivatives. Application date is for reporting periods beginning on or after 1 June 2006.

The consolidated entity plans to adopt AASB 7 and AASB 2005-10 in the year ended 24 June 2007. The initial application of AASB 7 and AASB 2005-10 is not expected to have an impact on the financial results as the standard and the amendment are primarily concerned with disclosures. UIG 8 and UIG 9 are not expected to have a significant impact on the financial results of the business, if any. The consolidated entity is currently investigating the impact that AASB 2005-9 will have on the results of the business, if any.

Except for the change in accounting policy relating to classification and measurement of financial instruments as set out in Note 1E, F, J and P, the accounting policies set out below have been applied consistently to all periods presented in these Financial Statements. They also have been applied in preparing an opening AIFRS balance sheet at 28 June 2004 for the purposes of the transition to AIFRS, as required by AASB 1. The impact of the transition from previous GAAP to AIFRS is explained in Note 31. Where relevant, the accounting policies applied to the comparative period have been disclosed if they differ from the current period policy. These accounting policies have been consistently applied by each entity in the consolidated entity.

The preparation of a financial report in conformity with Australian Accounting Standards requires management to make judgements, estimates and assumptions that effect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

C Basis for consolidation

(i) Subsidiaries
In these Financial Statements, Woolworths Limited is referred to as the "Company" and the "Consolidated" Financial Statements are those of the consolidated entity, comprising Woolworths Limited and its controlled entities.

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The Financial Statements of subsidiaries are included in the financial report from the date that control commences until the date that control ceases.

Minority interests in the equity and results of controlled entities are shown as a separate item in the consolidated financial report.

(ii) Associates
Investments in associates are accounted for in the consolidated financial report using the equity method. Under this method, the consolidated entity's share of the post-acquisition profits or losses of associates is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in consolidated reserves. The cumulative post-acquisition movements are adjusted against the cost of the investment. Associates are those entities over which the consolidated entity exercises significant influence, but not control.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C Basis for consolidation (continued)

(iii) Transactions eliminated on consolidation
Intragroup balances, and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial report.

Unrealised gains arising from transactions with associates are eliminated to the extent of the consolidated entity's interest in the entity with adjustments made to the "Investment in associates" and "Share of associates' net profit" accounts.

Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

D Foreign currency

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Australian dollars at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Exchange differences are recognised in the profit or loss in the period in which they arise except that:

- exchange differences on transactions entered into in order to hedge certain foreign currency risks; and
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur, which form part of the net investment in a foreign operation, which are recognised in the foreign currency translation reserve and recognised in profit or loss on disposal of the net investment.

Financial statements of foreign operations
The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to Australian dollars at foreign exchange rates ruling at the balance sheet date. Revenue and expense items are translated at the average exchange rates for the period. Exchange differences arising on translation of foreign operations, if any, are recognised in the foreign currency translation reserve and recognised in consolidated profit and loss on disposal of the foreign operation.

E Derivative financial instruments

Current period policy
The consolidated entity may use derivative financial instruments to hedge its exposure to foreign exchange and interest rate risks arising from operational, financing and investment activities. In accordance with its treasury policy, the consolidated entity does not hold or issue derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

Derivative financial instruments are recognised initially at fair value on the date a derivative contract is entered into. Subsequent to initial recognition, derivative financial instruments are stated at fair value. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss unless the derivatives qualify for hedge accounting whereby the recognition of any resultant gain or loss depends on the nature of the item being hedged (refer Note 1F).

The fair value of interest rate swaps is the estimated amount that the consolidated entity would receive or pay to terminate the swap at the balance sheet date, taking into account current interest rates and the current creditworthiness of the swap counterparties. The fair value of forward exchange contracts is their quoted market price at the balance sheet date, being the present value of the quoted forward price.

Comparative period policy
The consolidated entity may enter into forward foreign exchange contracts and interest rate swap agreements. Accounting for forward exchange contracts and interest rate swaps was in accordance with the comparative period accounting policy set out in Note 1F.

The net amount receivable or payable under interest rate swap agreements was progressively brought to account over the period to settlement. The amount recognised was adjusted against interest expense during the period.

F Hedging

Current period policy
(i) Cash flow hedges
A cash flow hedge is a hedge of an exposure to uncertain future cash flows. A cash flow hedge results in the uncertain future cash flows being hedged back into fixed amounts. Woolworths' cash flow hedges include:

- interest rate swap contracts that convert floating interest rate payments on borrowings into fixed amounts; and
- cross-currency interest rate swaps that convert foreign currency denominated principal and interest rate payments on offshore loans into fixed Australian dollar amounts.

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecasted transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in equity.

When the forecasted transaction subsequently results in the recognition of a non-financial asset or non-financial liability, the associated cumulative gain or loss is removed from equity and included in the initial cost or other carrying amount of the non-financial asset or liability. If a hedge of a forecasted transaction subsequently results in the recognition of a financial asset or a financial liability, then the associated gains and losses that were recognised directly in equity are reclassified into profit or loss in the same period or periods during which the asset acquired or liability assumed affects profit or loss (i.e. when interest income or expense is recognised).

The ineffective part of any derivative designated as a hedge is recognised immediately in the income statement.

When a hedging instrument expires or is sold, terminated or exercised, or the entity revokes designation of the hedge relationship but the hedged forecast transaction still is expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, then the cumulative unrealised gain or loss recognised in equity is recognised immediately in the income statement.

(ii) Fair value hedge
A fair value hedge is a hedge of a fair value (i.e. "mark-to-market") exposure arising on a recognised balance sheet asset or liability. A fair value hedge results in the fair value exposure being offset. Woolworths' fair value hedges include:

– Cross-currency interest rate swaps (CCIRS) that convert fixed interest rate foreign currency borrowings into floating rate Australian dollar borrowings. The CCIRS offsets the foreign currency and fixed interest rate fair value exposures arising on those borrowings.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in profit or loss immediately, together with any changes in the fair value of the hedged asset or liability that is attributable to the hedged risk.

Hedge accounting is discontinued when the hedge instrument expires or is sold, terminated, exercised, or no longer qualifies for hedge accounting. The adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to profit or loss from that date.

(iii) Hedge of monetary assets and liabilities
When a derivative financial instrument is used to hedge economically the foreign exchange exposure of a recognised monetary asset or liability, hedge accounting is not applied and any gain or loss on the hedging instrument is recognised in the income statement.

Comparative period policy
(i) Specific commitments
Exchange gains and losses, and costs, premiums and discounts on transactions intended to hedge the purchase or sale of goods or services were deferred up to the date of, and included in, the measurement of the purchase or sale.

In the case of hedges of monetary items, exchange gains and losses were brought to account in the period in which the exchange rates change. Gains or costs arising on entry into such hedging transactions were brought to account over the lives of the hedges.

Where a hedging transaction is terminated prior to maturity and the underlying transaction was still expected to occur, any gains or losses occurring prior to termination continued to be deferred and were brought to account in the measurement of the underlying transaction. Where the underlying transaction was no longer expected to occur, any previously deferred gains and losses were taken to the income statement at the date of termination.

Where a hedging transaction is redesignated as a hedge of another transaction, gains and losses arising on the hedge prior to its redesignation were only deferred where the original anticipated transaction is still expected to occur. Where the original transaction is no longer expected to occur, any gains or losses relating to the hedge instrument were included in the income statement for the period.

(ii) General commitments
Exchange gains and losses on other hedge transactions were not deferred, but were brought to account in the income statement in the period in which the exchange rates change. Gains or costs arising on entry into these transactions are brought to account at the time of entry and amortised over the lives of the hedges.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G Property, plant and equipment

Freehold land and buildings and development properties are measured at cost. Borrowing and other holding and development costs on property under development are capitalised until completion of the development.

Land and buildings held for sale are classified as current assets and are valued at the lower of cost and fair value less costs to sell and depreciation on such assets ceases.

Items of property, plant and equipment are stated at cost less accumulated depreciation (see below) and impairment losses (refer Note 1N). The cost of self-constructed assets includes the cost of materials, direct labour, and an appropriate proportion of production overheads. The cost of self-constructed assets and acquired assets includes estimates of the costs of dismantling and removing the items and restoring the site on which they are located where it is probable that such costs will be incurred, and changes in the measurement of existing liabilities recognised for these costs resulting from changes in the timing or outflow of resources required to settle the obligation or from changes in the discount rate.

Property that is being constructed or developed for future use as investment property is classified as property, plant and equipment and stated at cost until construction or development is complete.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

(i) Leased assets
Leases whereby the consolidated entity assumes substantially all of the risks and rewards of ownership are classified as finance leases. Property acquired by way of a finance lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation (see below) and impairment losses (refer Note 1N). Lease payments are accounted for as described in Note 1U.

(ii) Depreciation
(a) Buildings, fixtures, fittings and plant
Buildings and plant comprising lifts, air-conditioning, fire protection systems and other installations are depreciated on a straight-line basis over the estimated useful life of the asset to the consolidated entity. Estimates of remaining useful lives are made on a regular basis for all assets.

The expected useful lives are as follows:

	2006	2005
Buildings	25 to 40 years	25 to 40 years
Fixtures, fittings and plant	3 to 10 years	3 to 10 years

(b) Leasehold improvements
The cost of leasehold improvements is amortised over the remaining period of the individual leases or the estimated useful life of the improvement to the consolidated entity, whichever is the shorter. Leasehold improvements held at the reporting date are being amortised over a maximum period of 20 years.

(c) Plant, equipment and shop fittings
Plant, equipment and shop fittings (including application software) are depreciated on a straight-line basis over the estimated useful life of the asset to the consolidated entity. Estimates of remaining useful lives are made on a regular basis for all assets.

The expected useful lives are as follows:

	2006	2005
Plant, equipment and fittings	2.5 to 10 years	2.5 to 10 years

(d) Proceeds from sale of assets
The gross proceeds of asset sales are recognised at the date that an unconditional contract of sale is exchanged with the purchaser. The net gain (net loss) is recorded in other income.

H Goodwill

Business combinations prior to 27 June 2004
Goodwill is included on the basis of its deemed cost, which represents the amount recorded under previous GAAP. The classification and accounting treatment of business combinations that occurred prior to 27 June 2004 have not been reconsidered in preparing the consolidated entity's opening AIFRS transition balance sheet.

Business combinations since 27 June 2004
All business combinations are accounted for by applying the purchase method whereby entities and businesses acquired are accounted for using the cost method of accounting, whereby fair values are assigned to all the identifiable underlying assets acquired and liabilities assumed, including contingent liabilities, at the date of acquisition.

Goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired. Goodwill is not amortised, but tested for impairment annually and whenever an indication of impairment exists, (refer Note 1N). Any impairment is recognised immediately in profit or loss and is not subsequently reversed.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units. In respect of associates, the carrying amount of goodwill is included in the carrying amount of the investment in the associate. Any impairment is recognised directly in the income statement and is not subsequently reversed.

I Other intangibles

(i) Brand names

Brand names are valued at cost. Brand names are considered to have an indefinite useful life. As a consequence, no amortisation has been charged. They are tested for impairment annually and whenever an indication of impairment exists. Any impairment is recognised immediately in profit or loss.

(ii) Liquor licences

Liquor licences are valued at cost. Liquor licences are considered to have an indefinite useful life. As a consequence, no amortisation has been charged. They are tested for impairment annually and whenever an indication of impairment exists. Any impairment is recognised immediately in profit or loss.

(iii) Gaming licences

Gaming licences are valued at cost. Gaming licences are considered to have an indefinite useful life. As a consequence, no amortisation has been charged. They are tested for impairment annually and whenever an indication of impairment exists. Any impairment is recognised immediately in profit or loss.

(iv) Research and development

Expenditure on research activities, undertaken with the prospect of gaining new technical knowledge and understanding, is recognised in the income statement as an expense as incurred.

Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalised if the product or process is technically and commercially feasible and the consolidated entity has sufficient resources to complete development. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads.

Other development expenditure is recognised in the income statement as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation (see below) and impairment losses (refer Note 1N).

(v) Other intangible assets

Other intangible assets that are acquired by the consolidated entity are stated at cost. These are considered to have an indefinite useful life. As a consequence, no amortisation has been charged. Expenditure on internally generated goodwill and brand names is recognised in profit or loss as an expense as incurred.

J Investments

Current accounting policy

Interests in controlled entities are accounted for in the consolidated Financial Statements as set out in Note 1C and at cost in Woolworths Limited's Financial Statements. Investments in associates are accounted for under the equity method in the consolidated Financial Statements and the cost method in Woolworths Limited's Financial Statements.

Financial instruments held for trading are classified as current assets and are stated at fair value, with any resultant gain or loss recognised in the income statement. The consolidated entity has not designated any other financial assets or liabilities as measured at fair value through the income statement.

Where the consolidated entity has the positive intent and ability to hold Government bonds to maturity, they are stated at amortised cost less impairment losses (refer Note 1N).

Comparative accounting policy

Interests in listed and unlisted shares are carried at the lower of cost and recoverable amount in Woolworths Limited's Financial Statements. Interest in semi-Government securities are carried at amortised cost, calculated after accounting for the discount or premium on acquisition. Interest income is taken to account as revenue on an effective yield basis.

K Trade and other receivables

Trade and other receivables are stated at their cost less impairment losses (refer Note 1N).

L Inventories

Shortlife retail stocks are valued at the lower of average cost or net realisable value.

Longlife retail stocks have been valued using the retail inventory method to arrive at cost. The retail inventory method determines cost by reducing the value of the inventory by the appropriate gross margin percentage which takes into account markdown prices.

Warehouse stocks are valued at the lower of average cost or net realisable value.

These methods of valuation are considered to achieve a valuation reasonably approximating the lower of cost and net realisable value. Cost includes all purchase related rebates, settlement discounts and other costs incurred to bring inventory to its condition and location for sale.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M Cash and cash equivalents
Cash and cash equivalents comprise cash balances and call deposits with an original maturity of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the consolidated entity's cash management are included as a component of cash and cash equivalents for the purpose of the cash flow statement.

N Impairment
The carrying amounts of the consolidated entity's tangible assets, excluding inventories (refer Note 1L) and deferred tax assets (refer Note 1W), are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated (refer below).

For goodwill and other intangible assets that have an indefinite useful life and intangible assets that are not yet available for use, the recoverable amount is estimated annually and whenever there is an impairment indicator.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit (CGU) exceeds its recoverable amount. Impairment losses are recognised in the income statement unless the asset has previously been revalued, in which case the impairment loss is recognised as a reversal to the extent of that previous revaluation with any excess recognised through the income statement.

(i) Calculation of recoverable amount
The recoverable amount of the consolidated entity's investments in held-to-maturity securities and receivables is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e. the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted.

Impairment of receivables is not recognised until objective evidence is available that a loss event has occurred. Significant receivables are individually assessed for impairment.

Impairment testing of significant receivables that are not assessed as impaired individually is performed by placing them into portfolios of significant receivables with similar risk profiles and undertaking a collective assessment of impairment.

Non-significant receivables are not individually assessed. Instead, impairment testing is performed by placing non-significant receivables in portfolios of similar risk profiles, based on objective evidence from historical experience adjusted for any effects of conditions existing at each balance date.

The recoverable amount of other assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss will be recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses will be recognised in the income statement. Impairment losses recognised in respect of a cash-generating unit will be allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit and then to reduce the carrying amount of the other assets in the unit on a pro-rata basis to their carrying amounts.

(ii) Reversals of impairment
An impairment loss in respect of a held-to-maturity security or receivable is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

O Capital
(i) Debt and equity instruments
Debt and equity instruments are classified as either liabilities or as equity in accordance with the substance of the contractual arrangement.

(ii) Transaction costs on the issue of equity instruments
Transaction costs arising on the issue of equity instruments are recognised directly in equity as a reduction of the proceeds of the equity instruments to which the costs relate. Transaction costs are the costs that are incurred directly in connection with the issue of those equity instruments and which would not have been incurred had those instruments not been issued.

(iii) Interest and dividends
Interest and dividends are classified as expenses or as distributions of profit consistent with the balance sheet classification of the related debt or equity instruments or component parts of compound instruments.

P Borrowings

Current accounting policy

Borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

Borrowing costs directly attributable to buildings under construction are capitalised as part of the cost of those assets.

Comparative period policy

Bank loans are recognised at their principal amount, subject to set-off arrangements. Interest expense was accrued at the contracted rate and included in trade and other payables.

Debentures, bills of exchange and notes payable were recognised when issued at the net proceeds received, with the premium or discount on issue amortised over the period to maturity. Interest expense was recognised on an effective yield basis.

Q Employee benefits

The Company sponsors a superannuation plan that provides accumulation type benefits to permanent salaried employees and their dependants on retirement or death. Defined benefits have been preserved for members of certain former superannuation funds sponsored by the Company, which are now provided for in the plan.

The Company's commitment in respect of accumulation benefits under the scheme is limited to making the specified contributions in accordance with the rules of the plan and/or any statutory obligations.

(i) Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement as incurred.

(ii) Defined benefit plans

The consolidated entity has early adopted the revised AASB 119 Employee Benefits (December 2004).

Woolworths is the employer sponsor of a defined benefit superannuation fund. Under AIFRS, the employer sponsor is required to recognise a liability (or asset) where the present value of the defined benefit obligation, adjusted for unrecognised past service cost exceeds (is less than) the fair value of the underlying net assets of the fund (hereinafter referred to as the "defined benefit obligation").

The consolidated entity's net obligation, in respect of defined benefit plans, is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value.

The discount rate is the yield at the balance sheet date on Government bonds that have maturity dates approximating the terms of the consolidated entity's obligations. The calculation is performed by a qualified actuary using the projected unit credit method.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised as an expense in the income statement on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in the income statement.

All movements in the defined benefit obligation are recognised in the income statement except actuarial gains and losses. All actuarial gains and losses as at 28 June 2004, the date of transition to AIFRS, were recognised. Actuarial gains and losses that arise subsequent to 28 June 2004 are recognised in full in retained earnings in the period in which they occur and are presented in the statement of recognised income and expense.

When the calculation results in plan assets exceeding liabilities to the consolidated entity, the recognised asset is limited to the net total of any unrecognised actuarial losses and past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan.

(iii) Long-term service benefits

The consolidated entity's net obligation in respect of long-term service benefits, other than pension plans, is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The obligation is calculated using expected future increases in wage and salary rates including related on-costs and expected settlement dates, and is discounted using the rates attached to the Commonwealth Government bonds at the balance sheet date which have maturity dates approximating to the terms of the consolidated entity's obligations.

(iv) Share-based payment transactions

Equity settled share-based payments form part of the remuneration of employees (including executives) of both the consolidated entity and Company.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Q Employee benefits (continued)

The consolidated entity and Company recognises the fair value at the grant date of equity settled share-based payments (such as options) as an employee benefit expense proportionally over the vesting period with a corresponding increase in equity. Fair value is measured at grant date using a binominal model which takes into account market-based performance conditions. The fair value per instrument is multiplied by the number of instruments expected to vest based on achievement of non-market-based performance conditions (e.g. service conditions) to determine the total cost. This total cost is recognised as an employee benefit expense proportionally over the vesting period during which the employees become unconditionally entitled to the instruments.

On vesting and over the vesting period the amount recognised as an employee benefit expense will be adjusted to reflect the actual number of options that vest except where forfeiture is due to failure to achieve market-based performance conditions.

As permitted by the elections available under AASB 1, Woolworths has not retrospectively recognised the fair value of share-based payments that have vested prior to 1 January 2005. Furthermore, no adjustment has been made for share-based payments granted before 7 November 2002.

The consolidated entity operated an Employee Share Plan (ESP) whereby it provided interest free loans to selected employees to purchase shares in the Company. All shares acquired under the ESP are held by a wholly-owned subsidiary of Woolworths as trustee of the share plan trust. Dividends paid by Woolworths are used to repay the loan (after payment of a portion of the dividend to the employee to cover any tax liabilities).

The loans are limited recourse and if the employee elects not to repay the loan, the underlying shares are sold to recover the outstanding loan balance. These have been accounted for as an option in the Financial Statements.

Under AIFRS, a liability equal to that part of these receivable balances not yet repaid by the employee has been recognised as a liability as the financial institution has recourse to the Company until the share plan vesting conditions have been satisfied.

(v) Wages and salaries and related employee benefits

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave, long service leave and sick leave when it is probable that settlement will be required and they are capable of being reliably measured. Provisions made in respect of employee benefits, which are expected to be settled within 12 months, are recognised, and are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Provisions made in respect of employee benefits which are not expected to be settled within 12 months, are recognised and measured as the present value of expected future payments to be made in respect of services provided by employees up to period end. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. The expected future cash flows are discounted, using interest rates attaching to Commonwealth Government guaranteed securities which have terms to maturity, matching their estimated timing as closely as possible.

R Provisions

A provision is recognised in the balance sheet when the consolidated entity has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is probable that recovery will be received and the amount of the receivable can be measured reliably.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

(i) Restructuring

Provision for restructurings is recognised when the consolidated entity has developed a detailed formal plan for the restructuring and has either:

(a) entered into firm contracts to carry out the restructuring; or
(b) raised a valid expectation in those affected by the restructuring that the restructuring will occur.

(ii) Onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be derived by the consolidated entity from a contract are lower than the unavoidable cost of meeting its obligations under the contract.

(iii) Self-insurance

The consolidated entity provides for self-insured liabilities relating to workers compensation and public liability claims. The provisions for such liabilities are based on independent actuarial assessments, which consider numbers, amounts and duration of claims, and allow for future inflation and investment returns.

Allowance is included for injuries which occurred before the balance date, but where the claim is expected to be notified after the balance date.

The provision is discounted using the Commonwealth Government bond rate with a maturity date approximating the term of the consolidated entity's obligation.

(iv) Warranty
The consolidated entity provides for anticipated warranty costs when the underlying products or services are sold. The provision is based upon historical warranty data.

(v) Dividends
The consolidated entity provides for dividends when the dividend is declared by the Board of Directors.

S Trade and other payables
These amounts represent liabilities for goods and services provided to the consolidated entity and Company which were unpaid at the end of the period. The amounts are unsecured and are usually settled within 45 days of recognition.

T Revenue recognition
In general, revenue is recognised only when it is probable that the economic benefits comprising the revenue will flow to the entity, the flow can be reliably measured and the entity has transferred the significant risks and rewards of ownership.

In addition to these general criteria, specific revenue recognition criteria apply as follows:

(i) Sales revenue
Sales revenue represents the revenue earned from the provision of products and rendering of services to parties external to the consolidated entity and Company. Sales revenue is only recognised when the significant risks and rewards of ownership of the products, including possession, have passed to the buyer and for services when a right to be compensated has been attained and the stage of completion of the contract can be reliably measured.

Revenue is recognised on a commission-only basis where Woolworths acts as an agent rather than a principal in the transaction. Revenue is recognised net of returns.

Revenue from the sale of customer gift cards is recognised when the card is redeemed and the customer purchases the goods by using the card. Where a revenue transaction involves the issue of a voucher that may be subsequently redeemed, the future expected cost of settling the obligation is provided for.

(ii) Rental income
Rental income is recognised on a straight-line basis over the term of the lease. Lease rentals granted are recognised as an integral part of the total rental income.

(iii) Financing income
Interest income is recognised in the income statement as it accrues, using the effective interest method. Dividend income is recognised in the income statement on the date the entity's right to receive payments is established which in the case of quoted securities is the ex-dividend date.

U Leases
Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Operating lease payments
Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease.

Fixed rate increases to lease rental payments, excluding contingent or index-based rental increases, such as CPI, turnover rental and other similar increases, are recognised on a straight-line basis over the lease term. An asset or liability arises for the difference between the amount paid and the lease expense brought to account on a straight-line basis.

Lease incentives received are recognised in the income statement as an integral part of the total lease expense and spread over the lease term.

V Net financing costs
Net financing costs comprise interest payable on borrowings calculated using the effective interest method, dividends on preference shares classified as liabilities, interest receivable on funds invested, dividend income, foreign exchange gains and losses, and gains and losses on hedging instruments that are recognised in the income statement (refer Note 1F).

W Income tax
Income tax in the income statement for the periods presented comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity. Where it arises from the initial accounting for a business combination, it is taken into account in the determination of goodwill or excess.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years. Current tax for current and prior periods is recognised as a liability to the extent it is unpaid.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.
In accordance with AASB 112 Income Taxes, the following temporary differences are not provided for: goodwill, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future where the consolidated entity is able to control the reversal of the temporary differences.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

W Income tax (continued)

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences or unused tax losses and tax offsets can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the consolidated entity intends to settle its current tax assets and liabilities on a net basis.

Tax consolidation

The Company and its wholly-owned Australian resident entities have formed a tax consolidated group with effect from 1 July 2002 and are therefore taxed as a single entity from that date. The head entity within the tax consolidated group is Woolworths Limited.

Tax expense/income, deferred tax assets and deferred tax liabilities arising from temporary differences of the members of the tax consolidated group are recognised by each member of the tax consolidated group.

The head entity, in conjunction with other members of the tax consolidated group, has entered into a tax funding agreement which sets out the funding obligations of members of the tax consolidated group in respect of income tax amounts. The tax funding arrangements require payments to the head entity equal to the current tax liability assumed by the head entity. In addition, the head entity is required to make payments equal to the current tax asset assumed by the head entity in circumstances where the subsidiary member would have been entitled to recognise the current tax asset on a stand-alone basis. These tax funding arrangements result in the head entity recognising an inter-entity receivable/payable equal in amount to the tax liability/asset assumed. The inter-entity receivable/payable amounts are at call.

In respect of carried forward tax losses brought into the Group on consolidation by subsidiary members, the head entity will pay the subsidiary member for such losses when these losses are transferred to the Woolworths Limited tax consolidated group, where the subsidiary member would have been entitled to recognise the benefit of these losses on a stand-alone basis.

X Assets held for sale

Immediately before classification as held for sale, the measurement of the assets (and all assets and liabilities in a disposal group) is brought up to date in accordance with applicable AIFRS. Then, on initial classification as held for sale, assets and disposal groups are recognised at the lower of carrying amount and fair value less costs to sell.

Impairment losses on initial classification as held for sale are included in profit or loss, even when there is a revaluation. The same applies to gains and losses on subsequent remeasurement.

Y Goods and services tax

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the Australian Taxation Office (ATO) is included as a current asset or liability in the balance sheet.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

Z Segment reporting

Segment information is presented in respect of the consolidated entity's business and geographical segments. The primary format, business segments, is based on the consolidated entity's management and internal reporting structure. Inter-segment pricing is determined on an arm's length basis. Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Business segments

The consolidated entity comprises the following main segments:

Supermarket Division – encompasses supermarkets, retail liquor outlets and petrol outlets;
General Merchandise – encompasses BIG W discount department stores;
Consumer Electronics – encompasses Dick Smith Electronics, Tandy and Dick Smith Electronics Powerhouse stores;
Hotels – encompasses on premise liquor sales, food, accommodation, gaming and venue hire; and
Wholesale Division – comprises Statewide Independent Wholesalers (SIW).

Unallocated items comprise mainly income-earning assets and revenue, interest bearing borrowings and expenses, and corporate assets and expenses.

Geographical segments

Segment assets are based on the geographical location of the assets. Woolworths Limited operates in Australia and New Zealand with the majority of business customers in Australia. Woolworths operates in New Zealand following the acquisition of Foodland supermarkets and has supply arrangements with 45 franchised stores. The consumer electronics business operates stores based in Australia and New Zealand.

AA Accounting estimates and judgements

Management discussed with the Audit Committee the development, selection and disclosure of the consolidated entity's critical accounting policies and estimates and the application of these policies and estimates.

The estimates and judgements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are set out as appropriate in the Notes to the Financial Statements.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates and underlying assumptions are recognised in the period in which the estimate is revised if the revision affects only that period; or in the period and future periods if the revision affects both current and future periods.

	Consolidated 2006 $m	Consolidated 2005 $m	Woolworths Limited 2006 $m	Woolworths Limited 2005 $m

2 PROFIT FROM OPERATIONS

Profit before income tax includes the following items of revenue, income and expense:

	Consolidated 2006 $m	Consolidated 2005 $m	Woolworths Limited 2006 $m	Woolworths Limited 2005 $m
(a) Operating revenue				
Revenue from the sale of goods:				
Other parties	**37,734.2**	31,352.5	**27,923.1**	26,025.0
Related parties	**–**	–	**–**	2.8
Other operating revenue	**115.5**	128.7	**99.8**	120.2
Total revenue from operations	**37,849.7**	31,481.2	**28,022.9**	26,148.0
(b) Other revenue				
Rent	**28.7**	17.0	**4.5**	4.5
Other	**99.5**	78.2	**80.6**	70.8
Total other revenue	**128.2**	95.2	**85.1**	75.3
Total revenue	**37,977.9**	31,576.4	**28,108.0**	26,223.3
(c) Other income				
Net profit on disposal of property, plant, equipment, fixtures and fittings	**16.7**	10.2	**–**	4.9
Total other income	**16.7**	10.2	**–**	4.9
(d) Expenses				
Amounts provided for:				
Impairment of receivables	**3.1**	0.9	**1.1**	0.4
Self-insured risks (Note 16)	**88.8**	102.8	**73.3**	95.9
Depreciation of:				
Buildings	**22.9**	10.2	**1.7**	1.9
Plant and equipment, fixtures and fittings	**435.2**	364.0	**306.6**	282.8
Amortisation of:				
Leasehold improvements	**64.1**	41.8	**41.8**	36.6
Total depreciation and amortisation	**522.2**	416.0	**350.1**	321.3
Employee benefits expense[(1)]	**4,425.4**	3,724.8	**3,404.2**	3,217.7
Net loss on disposal of plant, property, equipment, fixtures and fittings	**–**	–	**14.6**	–
Operating lease rental expenses:				
Leased premises				
– minimum lease payments	**923.2**	750.1	**652.5**	583.9
– contingent rentals	**97.7**	80.6	**86.2**	72.5
– sub-leases	**2.4**	3.7	**–**	3.6
Leased equipment– minimum lease payments	**46.8**	65.8	**38.4**	57.3
Total operating lease rental expense	**1,070.1**	900.2	**777.1**	717.3

Note

(1)
Employee benefits expense includes salaries and wages, defined benefit plan expense, defined contribution plan expense, termination benefits, taxable value of fringe benefits, payroll tax, leave entitlements and share-based payments expense.

For the 52 weeks ended 25 June 2006	*Consolidated* 2006 $m	2005 $m	*Woolworths Limited* 2006 $m	2005 $m

3 NET FINANCING COSTS

	2006 $m	2005 $m	2006 $m	2005 $m
Financial expense				
Interest expense – other parties	**(270.2)**	(171.8)	**(264.8)**	(130.3)
Less: interest capitalised[1]	**3.4**	7.7	**2.9**	7.7
	(266.8)	(164.1)	**(261.9)**	(122.6)
Financial income				
Dividend income				
Related parties	–	3.6	–	2.5
Interest income				
Related parties	–	0.4	**128.5**	25.0
Other parties	**17.1**	10.0	**11.5**	7.0
	17.1	**14.0**	**140.0**	**34.5**
Net financing cost	**(249.7)**	(150.1)	**(121.9)**	(88.1)

Note

(1)
Weighted average capitalisation rate on funds borrowed generally: 7.0% (2005: 8.0%).

4 AUDITORS' REMUNERATION

	2006 $m	2005 $m	2006 $m	2005 $m
Auditors of the parent entity				
Audit or review of the financial report	**1.835**	1.503	**1.222**	0.975
Other non-audit related services[1]	**0.777**	0.240	**0.369**	0.189
	2.612	1.743	**1.591**	1.164
Other auditors[2]				
Audit or review of the financial report	**0.528**	0.034	**–**	–
Tax services	**–**	0.013	**–**	–
	0.528	0.047	**–**	–
Total auditors' remuneration	**3.140**	1.790	**1.591**	1.164

The auditor of Woolworths Limited is Deloitte Touche Tohmatsu.

Notes

(1)
Other non-audit services comprise assistance on various accounting ($0.054 million, 2005: $0.183 million) and tax matters ($0.195 million, 2005: $nil) and due diligence ($0.528 million, 2005: $0.057 million).

(2)
Other auditors include international associates of Deloitte Touche Tohmatsu Australia.

	Consolidated		Woolworths Limited	
	2006 $m	2005 $m	2006 $m	2005 $m

5 INCOME TAXES

(a) Income tax recognised in the income statement

Tax expense comprises:				
Current tax expense	**451.0**	383.4	**335.5**	333.5
Adjustments recognised in the current year in relation to the current tax of prior years	**0.1**	(13.6)	**3.2**	(13.6)
Deferred tax relating to the origination and reversal of temporary differences	**(5.3)**	(35.0)	**(22.3)**	(31.5)
Total tax expense	**445.8**	334.8	**316.4**	288.4

Numerical reconciliation between tax expense and pre-tax net profit
The prima facie income tax expense on pre-tax accounting profit from operations reconciles to the income tax expense in the Financial Statements as follows:

Profit from operations	**1,472.5**	1,152.0	**1,096.9**	995.7
Income tax using the domestic corporation tax rate of 30% (2005: 30%)	**441.8**	345.6	**329.1**	298.7
Non-deductible expenses	**3.4**	1.3	**3.4**	1.3
Impact of differences in offshore tax rates	**4.3**	–	**–**	–
Exempt foreign dividend income	**–**	–	**(14.4)**	–
Other	**(3.8)**	1.5	**(4.9)**	2.0
	445.7	348.4	**313.2**	302.0
Under/(over) provided in prior years	**0.1**	(13.6)	**3.2**	(13.6)
	445.8	334.8	**316.4**	288.4

(b) Income tax recognised directly in equity

The following current and deferred amounts were charged/(credited) directly to equity during the period:

Deferred tax				
Cash flow hedges	**(1.6)**	–	**(1.6)**	–
Transactions charged to foreign currency translation reserve	**13.6**	–	**–**	–
Actuarial movements on defined benefits plans	**(4.5)**	(3.0)	**(4.5)**	(3.0)
Revaluation of intangible assets	**–**	14.0	**–**	–
Other	**(0.6)**	–	**(0.3)**	–
	6.9	11.0	**(6.4)**	(3.0)

(c) Current tax assets and liabilities

The current tax liability for the consolidated entity of $84.6 million (2005: $105.5 million) and for Woolworths Limited of $96.5 million (2005: $115.9 million) represents the amount of income taxes payable in respect of current and prior financial periods. In accordance with the tax consolidation legislation, Woolworths Limited, as the head entity of the Australian tax consolidated group has assumed the current tax liabilities initially recognised by the members in the tax consolidated group.

(d) Deferred tax balances

Deferred tax assets comprise:				
Tax losses – revenue	**–**	10.0	**–**	–
Temporary differences	**336.9**	277.7	**272.8**	244.1
	336.9	287.7	**272.8**	244.1

Taxable and deductible differences arise from the following:

Consolidated 2006	*Opening Balance $m*	*Credited/ (Charged) to Income $m*	*Credited/ (Charged) to Equity $m*	*Acquisitions/ Disposals $m*	*Closing Balance $m*
Gross deferred tax assets					
Property, plant and equipment	43.7	16.4	(1.3)	10.0	68.8
Provisions and accruals	218.7	39.5	1.4	27.3	286.9
Recognised tax losses	10.0	(10.0)	–	–	–
Other	27.7	(6.3)	1.6	9.0	32.0
	300.1	39.6	1.7	46.3	387.7
Gross deferred tax liabilities					
Intangible assets	(14.0)	0.5	–	(0.5)	(14.0)
Prepayments	1.0	(3.9)	–	–	(2.9)
Unrealised foreign exchange differences	–	–	(9.6)	–	(9.6)
Other	0.6	(30.9)	1.0	5.0	(24.3)
	(12.4)	(34.3)	(8.6)	4.5	(50.8)
	287.7	5.3	(6.9)	50.8	336.9

Woolworths Limited 2006	*Opening Balance $m*	*Credited/ (Charged) to Income $m*	*Credited/ (Charged) to Equity $m*	*Closing Balance $m*
Gross deferred tax assets				
Property, plant and equipment	66.1	8.3	–	74.4
Provisions and accruals	140.5	45.4	4.5	190.4
Other	37.5	(27.7)	1.9	11.7
	244.1	26.0	6.4	276.5
Gross deferred tax liabilities				
Prepayments	(0.3)	(2.5)	–	(2.8)
Other	0.3	(1.2)	–	(0.9)
	–	(3.7)	–	(3.7)
	244.1	22.3	6.4	272.8

5 INCOME TAXES (CONTINUED)

Taxable and deductible differences arise from the following:

Consolidated 2005	*Opening Balance $m*	*Credited/ (Charged) to Income $m*	*Credited/ (Charged) to Equity $m*	*Acquisitions/ Disposals $m*	*Closing Balance $m*
Gross deferred tax assets					
Property, plant and equipment	16.4	27.3	–	–	43.7
Provisions and accruals	201.9	(1.8)	3.0	15.6	218.7
Recognised tax losses	–	10.0	–	–	10.0
Other	24.1	(6.0)	–	9.6	27.7
	242.4	29.5	3.0	25.2	300.1
Gross deferred tax liabilities					
Intangible assets	–	–	(14.0)	–	(14.0)
Prepayments	(2.0)	3.0	–	–	1.0
Other	(2.4)	2.5	–	0.5	0.6
	(4.4)	5.5	(14.0)	0.5	(12.4)
	238.0	35.0	(11.0)	25.7	287.7

Woolworths Limited 2005	*Opening Balance $m*	*Credited/ (Charged) to Income $m*	*Credited/ (Charged) to Equity $m*	*Closing Balance $m*
Gross deferred tax assets				
Property, plant and equipment	28.7	37.4	–	66.1
Provisions and accruals	150.8	(13.3)	3.0	140.5
Other	32.4	5.1	–	37.5
	211.9	29.2	3.0	244.1
Gross deferred tax liabilities				
Prepayments	(1.9)	1.6	–	(0.3)
Other	(0.4)	0.7	–	0.3
	(2.3)	2.3	–	–
	209.6	31.5	3.0	244.1

6 DIVIDENDS

2006	Cents per share	Total amount $m	Franked	Date of payment
Interim 2006 ordinary	28	325.9	100%	28/04/2006
Final 2005 ordinary	27	287.2	100%	7/10/2005
Total	55	613.1		

2005	Cents per share	Total amount $m	Franked	Date of payment
Interim 2005 ordinary	24	250.9	100%	29/04/2005
Final 2004 ordinary	24	248.9	100%	8/10/2004
Total	48	499.8		

All dividends are franked to 30%.

On 21 August 2006, the Board of Directors declared a final dividend in respect of the 2006 year of 31c (2005: 27c) per share 100% franked at a 30% tax rate. The amount that will be paid on 6 October 2006 (2005: 7 October 2005) will be $367.1 million (2005: $287.2 million). As the dividend was declared subsequent to 25 June 2006, no provision has been included as at 25 June 2006.

Woolworths has entered into an underwriting agreement in relation to the Woolworths DRP for the 2006 dividends. Under this arrangement Woolworths pays shareholders their dividend entitlement in cash to the extent that they have not elected to take up their full entitlement under the Woolworths DRP and the underwriter subscribes for a number of shares calculated by reference to the aggregate amount of cash which has been paid to shareholders who have not elected to take up their full share entitlement under the Woolworths DRP. The price per share paid by the underwriter is the average of the daily volume weighted average market price of Woolworths ordinary fully paid shares sold on the Stock Exchange Automated Trading System over a period of ten trading days commencing on the third trading day after the record date for the relevant dividend.

The underwriting agreement applied to both dividends paid in 2006. The underwriting agreement will apply to the final dividend payable in October 2006, following which the underwriting agreement will be concluded.

Franked dividends

	Consolidated 2006 $m	Consolidated 2005 $m	Woolworths Limited 2006 $m	Woolworths Limited 2005 $m
The franked portions of the dividends proposed as at 25 June 2006 will be franked out of existing franking credits or out of franked credits arising from the payment of income tax in the period ending 24 June 2007.				
Franking credits available for the subsequent financial year 30% (2005: 30%)	**740.6**	606.3	**702.1**	574.1

The above amounts represent the balances of the franking accounts as at the end of the financial period, adjusted for:

(a) franking credits that will arise from the payment of income tax payable at the end of the financial period; and

(b) franking debits that will arise from the payment of dividends provided at the end of the financial period.

Franking accounts are presented on a tax paid basis.

7 SEGMENT DISCLOSURES

	Supermarkets[1] 2006 $m	Supermarkets[1] 2005 $m	BIG W 2006 $m	BIG W 2005 $m
Business segments				
Sales to customers	**32,453.4**	26,878.0	**3,119.1**	2,908.7
Other operating revenue	**113.9**	128.7	**–**	–
Inter-segment revenue	**–**	–	**–**	–
Segment revenue	**32,567.3**	27,006.7	**3,119.1**	2,908.7
Eliminations				
Unallocated revenue/(expenses)[4]				
Total revenue				
Share of net profits of associate accounted for using the equity method	**–**	2.5	**–**	–
Segment result before tax	**1,448.0**	1,127.7	**123.1**	118.3
Unallocated revenue/(expenses)				
– Property				
– Head office				
Net financing cost				
Profit before tax				
Income tax expense				
Profit after tax				
Segment assets	**7,385.6**	4,143.7	**799.6**	739.4
Unallocated[5]				
Total assets				
Segment liabilities	**2,890.7**	2,275.2	**345.2**	376.2
Unallocated[5]				
Total liabilities				
Capital expenditure	**3,454.7**	910.3	**90.0**	62.1
Unallocated[5]				
Acquisition of assets				
Segment depreciation and amortisation	**364.8**	293.5	**36.7**	34.7
Unallocated[5]				
Total depreciation and amortisation				
Segment other non-cash expenses	**8.2**	6.7	**1.5**	1.2
Unallocated[6]				
Total other non-cash expenses				

Notes

(1)
Supermarkets comprise supermarket stores, liquor stores and petrol canopies in Australia and New Zealand.

(2)
Hotels comprise on-premise liquor sales, food, accommodation, gaming and venue hire.

(3)
Wholesale comprises Statewide Independent Wholesalers (SIW).

(4)
Unallocated revenue comprises rent and other revenue from operating activities.

Consumer Electronics		Hotels[2]		Wholesale[3]		Consolidated	
2006 $m	2005 $m	2006 $m	2005 $m	2006 $m	2005 $m	2006 $m	2005 $m
1,167.1	1,007.5	849.9	415.8	144.7	142.5	37,734.2	31,352.5
–	–	1.6	–	–	–	115.5	128.7
0.3	0.3	–	–	224.8	220.4	225.1	220.7
1,167.4	1,007.8	851.5	415.8	369.5	362.9	38,074.8	31,701.9
						(225.1)	(220.7)
						128.2	95.2
						37,977.9	31,576.4
–	–	–	–	–	–	–	2.5
64.0	54.5	151.1	52.8	1.8	2.5	1,788.0	1,355.8
						18.3	21.2
						(84.1)	(74.9)
						(249.7)	(150.1)
						1,472.5	1,152.0
						(445.8)	(334.8)
						1,026.7	817.2
408.1	369.7	2,404.9	1,530.9	59.6	57.7	11,057.8	6,841.4
						2,288.6	1,933.7
						13,346.4	8,775.1
89.7	112.4	107.8	83.6	37.0	36.3	3,470.4	2,883.7
						5,618.4	3,891.2
						9,088.8	6,774.9
23.8	34.8	919.3	1,442.8	1.4	0.6	4,489.2	2,450.6
						554.7	600.8
						5,043.9	3,051.4
21.7	18.2	39.5	23.0	1.3	1.3	464.0	370.7
						58.2	45.3
						522.2	416.0
0.3	0.3	–	–	–	–	10.0	8.2
						87.9	74.8
						97.9	83.0

(5)
Unallocated comprise corporate head office and property division.

(6)
Includes non-cash transactions including the Defined Benefit Liability movement, Financial Instruments and Employee Shares Scheme expenses.

	Australia 2006 $m	Australia 2005 $m	New Zealand 2006 $m	New Zealand 2005 $m	Consolidated 2006 $m	Consolidated 2005 $m

7 SEGMENT DISCLOSURES (CONTINUED)

Geographical segments

	Australia 2006 $m	Australia 2005 $m	New Zealand 2006 $m	New Zealand 2005 $m	Consolidated 2006 $m	Consolidated 2005 $m
Sales to customers	**34,885.0**	31,148.2	**2,849.2**	204.3	**37,734.2**	31,352.5
Other revenue	**337.1**	349.4	**3.5**	–	**340.6**	349.4
Segment revenue	**35,222.1**	31,497.6	**2,852.7**	204.3	**38,074.8**	31,701.9
Segment assets	**8,397.0**	6,787.5	**2,660.8**	53.9	**11,057.8**	6,841.4
Capital expenditure	**1,842.4**	2,448.3	**2,646.8**	2.3	**4,489.2**	2,450.6

The consolidated entity operates predominantly in Australia and New Zealand. Intersegment pricing is determined on an arm's-length basis.

8 TRADE AND OTHER RECEIVABLES

	Consolidated As at 2006 $m	Consolidated As at 2005 $m	Woolworths Limited As at 2006 $m	Woolworths Limited As at 2005 $m
Current				
Trade receivables	**85.1**	53.2	**35.9**	32.0
Other receivables	**963.1**(1)	434.0(2)	**181.6**	159.8
Loans to controlled entities	**–**	–	**22.9**	–
Prepayments	**112.2**	108.4	**88.1**	95.4
	1,160.4	595.6	**328.5**	287.2
Non-current				
Loans to controlled entities	**–**	–	**6,197.1**	3,477.8
Prepayments	**7.4**	8.0	**7.4**	8.0
Other receivables	**6.6**	8.2	**–**	–
	14.0	16.2	**6,204.5**	3,485.8

Notes

(1) This includes receivables of approximately $727.5 million from the sale of distribution centres.

(2) This includes receivables of approximately $242.0 million from the sale of the Woolworths support office at Norwest Business Park in Sydney.

Trade and other receivables are presented net of impairment allowance.

9 OTHER FINANCIAL ASSETS

	Consolidated As at 2006 $m	Consolidated As at 2005 $m	Woolworths Limited As at 2006 $m	Woolworths Limited As at 2005 $m
Non-current				
Controlled entities:				
Unlisted shares at cost	**–**	–	**3,094.3**	151.9
Fair value derivatives(1)				
Interest rate swaps	**55.8**	–	**55.8**	–
Cross-currency swaps	**3.0**	–	**3.0**	–
Listed equity securities at fair value	**–**	0.4	**–**	–
Unlisted shares at fair value	**0.1**	0.1	**–**	–
Other	**0.6**	0.6	**0.4**	0.4
	59.5	1.1	**3,153.5**	152.3

Note

(1) There is no requirement to recognise fair value derivatives under the accounting policies applicable to the comparative period. Such fair value derivatives are recognised in the current period under AASB 139.

	Consolidated As at 2006 $m	Consolidated As at 2005 $m	Woolworths Limited As at 2006 $m	Woolworths Limited As at 2005 $m

10 PROPERTY, PLANT AND EQUIPMENT

	2006 $m	2005 $m	2006 $m	2005 $m
Current				
Assets held for sale[1]	**115.6**	65.4	**90.7**	0.2
Non-current				
Development properties:				
At cost	**178.0**	167.9	**–**	–
Less: Accumulated depreciation	**(2.6)**	(2.3)	**–**	–
	175.4	165.6	**–**	–
Freehold warehouse, retail and other properties:				
At cost	**909.4**	870.6	**34.8**	96.9
Less: Accumulated depreciation	**(34.2)**	(40.1)	**(8.1)**	(7.8)
	875.2	830.5	**26.7**	89.1
Leasehold improvements:				
At cost	**993.2**	617.8	**561.2**	436.8
Less: Accumulated amortisation	**(420.8)**	(258.3)	**(183.3)**	(147.7)
	572.4	359.5	**377.9**	289.1
Plant and equipment:				
At cost	**6,330.7**	5,156.8	**3,390.5**	2,959.3
Less: Accumulated depreciation	**(3,897.9)**	(3,153.1)	**(1,594.5)**	(1,418.3)
	2,432.8	2,003.7	**1,796.0**	1,541.0
	4,055.8	3,359.3	**2,200.6**	1,919.2
Total property, plant and equipment – net book value	**4,171.4**	3,424.7	**2,291.3**	1,919.4

Note

(1)
The consolidated entity intends to dispose of certain land and buildings over the next 12 months.

Total property, plant and equipment – net book value

An assessment as to the carrying value of Woolworths-owned properties as at 25 June 2006 was performed. The basis of the assessment was a combination of external market assessments and/or valuations and Woolworths' property group assessments.

External valuations are obtained every three years. Based on the most recent assessments, a provision for development losses of $93.7 million (2005: $67.3 million) is held as at 25 June 2006.

Reconciliations of the carrying amounts of each class of non-current property, plant and equipment at the beginning and end of the current and previous financial periods are set out in the next table.

10 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Consolidated 2006	*Development Properties $m*	*Freehold Warehouse, Retail and Other Properties $m*	*Leasehold Improvements $m*	*Plant and Equipment $m*	*Total $m*
Carrying amount at start of period	165.6	830.5	359.5	2,003.7	3,359.3
Additions (excluding additions arising from acquisition of controlled entities)	55.5	480.2	168.8	688.8	1,393.3
Additions arising from acquisition of controlled entities	53.4	229.6	89.2	306.9	679.1
Disposals	(9.4)	(677.9)	(4.5)	(54.5)	(746.3)
Transfer to assets held for sale	–	(76.9)	–	–	(76.9)
Depreciation/amortisation expense	(1.8)	(21.1)	(64.1)	(435.2)	(522.2)
Other	(82.8)	112.6	31.8	(58.2)	3.4
Effect of movements in foreign exchange rates	(5.1)	(1.8)	(8.3)	(18.7)	(33.9)
Carrying amount at end of period	175.4	875.2	572.4	2,432.8	4,055.8

Consolidated 2005					
Carrying amount at start of period	72.1	343.6	294.2	1,626.9	2,336.8
Additions (excluding additions arising from acquisition of controlled entities)	91.6	230.4	89.7	588.0	999.7
Additions arising from acquisition of controlled entities	–	217.7	34.2	139.1	391.0
Disposals	(12.3)	(0.8)	(2.6)	(12.2)	(27.9)
Depreciation/amortisation expense	(0.4)	(9.8)	(41.8)	(364.0)	(416.0)
Other	14.6	49.4	(14.2)	25.9	67.1
Carrying amount at end of period	165.6	830.5	359.5	2,003.7	3,359.3

Woolworths Limited 2006	*Development Properties $m*	*Freehold Warehouse, Retail and Other Properties $m*	*Leasehold Improvements $m*	*Plant and Equipment $m*	*Total $m*
Carrying amount at start of period	–	89.1	289.1	1,541.0	1,919.2
Additions (excluding additions arising from acquisition of controlled entities)	–	3.7	112.4	617.6	733.7
Additions arising from acquisition of controlled entities	–	–	–	10.3	10.3
Disposals	–	(6.2)	(1.8)	(20.5)	(28.5)
Transfer to assets held for sale	–	(55.8)	–	–	(55.8)
Depreciation/amortisation expense	–	(1.7)	(41.8)	(306.6)	(350.1)
Other	–	(2.4)	20.0	(45.8)	(28.2)
Carrying amount at end of period	–	26.7	377.9	1,796.0	2,200.6

Woolworths Limited 2005					
Carrying amount at start of period	–	17.2	272.9	1,302.7	1,592.8
Additions (excluding additions arising from acquisition of controlled entities)	–	35.9	64.3	509.0	609.2
Additions arising from acquisition of controlled entities	–	–	–	0.1	0.1
Disposals	–	(0.3)	(1.2)	(12.3)	(13.8)
Depreciation/amortisation expense	–	(1.9)	(36.6)	(282.8)	(321.3)
Other	–	38.2	(10.3)	24.3	52.2
Carrying amount at end of period	–	89.1	289.1	1,541.0	1,919.2

Impairment of tangible assets

At balance date the carrying amount of tangible assets is reviewed to determine whether there is an indication that the assets may be impaired. If such an indication exists the recoverable amount of the asset, which is the higher of its fair value less costs to sell and its value in use, is estimated in order to determine the extent of any impairment loss.

The recoverable amount has been assessed at the cash-generating unit (CGU) level, which is the smallest group of assets generating cash flows independent of other CGUs that benefit from the use of the respective tangible asset.

The recoverable amount has been determined based on the value in use which is calculated using cash flow projections from 2007 financial budgets approved by management and the Board. The cash flows are discounted to present value using pre-tax discount rates between 11% and 13% depending on the nature of the business and the country of operation. This discount rate is derived from the Group's post-tax average cost of capital.

The key assumptions used in the value in use calculations include sales growth, CODB reductions and discount rates (which have been estimated as described above). The assumptions regarding sales growth and CODB reductions are based on past experience and expectations of changes in the market.

11 INTANGIBLES

	Consolidated As at 2006 $m	Consolidated As at 2005 $m	Woolworths Limited As at 2006 $m	Woolworths Limited As at 2005 $m
Goodwill	**2,971.2**	836.0	**280.8**	278.0
Brand names	**241.1**	13.9	**–**	–
Liquor and gaming licences	**1,481.3**	1,131.5	**148.2**	139.7
Other	**65.8**	65.0	**–**	–
	4,759.4	2,046.4	**429.0**	417.7

Reconciliation of movements in intangibles

Consolidated 2006	Goodwill $m	Brand names $m	Liquor and gaming licences $m	Other $m	Total intangibles $m
Carrying amount at start of period	**836.0**	**13.9**	**1,131.5**	**65.0**	**2,046.4**
Additions arising from acquisition of controlled entities	**2,315.3**	**244.1**	**393.1**	**–**	**2,952.5**
Other acquisitions	**–**	**–**	**1.8**	**0.8**	**2.6**
Disposals	**–**	**–**	**(0.1)**	**–**	**(0.1)**
Reclassification	**45.7**	**–**	**(45.7)**	**–**	**–**
Effect of movements in foreign exchange rates	**(225.8)**	**(16.9)**	**0.7**	**–**	**(242.0)**
Carrying amount at end of period	**2,971.2**	**241.1**	**1,481.3**	**65.8**	**4,759.4**

Consolidated 2005	Goodwill $m	Brand names $m	Liquor and gaming licences $m	Other $m	Total intangibles $m
Carrying amount at start of period	401.6	–	170.6	–	572.3
Additions arising from acquisition of controlled entities	436.4	13.9	961.7	65.0	1,477.0
Disposals	(1.8)	–	–	–	(1.8)
Other	(0.2)	–	(0.9)	–	(1.1)
Carrying amount at end of period	836.0	13.9	1,131.5	65.0	2,046.4

Woolworths Limited 2006	Goodwill $m	Liquor and gaming licences $m	Total intangibles $m
Carrying amount at start of period	**278.0**	**139.7**	**417.7**
Additions arising from acquisition of controlled entities	**2.8**	**8.2**	**11.0**
Other acquisitions	**–**	**0.6**	**0.6**
Disposals	**–**	**(0.1)**	**(0.1)**
Other	**–**	**(0.2)**	**(0.2)**
Carrying amount at end of period	**280.8**	**148.2**	**429.0**

Woolworths Limited 2005	Goodwill $m	Liquor and gaming licences $m	Total intangibles $m
Carrying amount at start of period	263.5	128.6	392.1
Additions arising from acquisition of controlled entities	13.9	11.1	25.0
Other	0.6	–	0.6
Carrying amount at end of period	278.0	139.7	417.7

Goodwill and intangible assets with indefinite lives are tested for impairment annually at the balance date and whenever there is an indication that the asset may be impaired. An impairment loss is recognised whenever the carrying amount exceeds the recoverable amount.

The recoverable amount is assessed at the cash-generating unit (CGU) level, which is the smallest group of assets generating cash flows independent of other CGUs that benefit from the use of the respective intangible asset.

The recoverable amount is determined based on the value in use which is calculated using cash flow projections from 2007 financial budgets approved by management and the Board. The cash flows are discounted to present value using pre-tax discount rates between 11% and 13% depending on the nature of the business and the country of operation. This discount rate is derived from the Group's post-tax average cost of capital.

The key assumptions used in the value in use calculations include sales growth, CODB reductions and discount rates (which have been estimated as described above). The assumptions regarding sales growth and COBD reductions are based on past experience and expectations of changes in the market.

Brand names relate primarily to the Progressive Enterprises business in New Zealand. These have been assessed in conjunction with the related goodwill.

The components of goodwill are as follows:

	Consolidated As at		*Woolworths Limited As at*	
	2006 $m	*2005 $m*	*2006 $m*	*2005 $m*
Supermarkets – Australia	**506.2**	432.5	**280.8**	278.0
Supermarkets – New Zealand	**1,812.1**	–	**–**	–
Consumer Electronics	**66.0**	65.9	**–**	–
Hotels	**585.5**	336.2	**–**	–
Wholesale	**1.4**	1.4	**–**	–
	2,971.2	836.0	**280.8**	278.0

No intangible assets were identified as impaired at reporting date.

12 TRADE AND OTHER PAYABLES

Accounts payable	**2,778.5**	2,335.6	**2,222.2**	2,080.2
Loans from controlled entities	**–**	–	**2,852.2**	451.5
Accruals	**733.0**	521.4	**498.7**	437.6
Unearned income	**61.9**	59.1	**23.2**	23.3
	3,573.4	2,916.1	**5,596.3**	2,992.6

13 OTHER FINANCIAL LIABILITIES

Non-current

At fair value				
Fair value derivatives[1]				
Cross-currency swaps	**70.7**	–	**70.7**	–
	70.7	–	**70.7**	–

Note

(1)
There is no requirement to recognise fair value derivatives under the accounting policies applicable to the comparative period. Such fair value derivatives are recognised in the current period under AASB 139.

14 BORROWINGS

	Consolidated As at 2006 $m	Consolidated As at 2005 $m	Woolworths Limited As at 2006 $m	Woolworths Limited As at 2005 $m
Current				
Unsecured				
At amortised cost (2005: cost)				
Short term securities(1)	**443.8**	140.0	**443.8**	140.0
Short term money market loans(2)	**42.0**	95.0	**42.0**	95.0
Bank loans(3)	**125.0**	–	**125.0**	–
	610.8	235.0	**610.8**	235.0
Secured				
Bank loans(4)	**1.5**	0.5	**–**	–
	612.3	235.5	**610.8**	235.0
Non-current				
Unsecured				
At amortised cost (2005: cost)				
Long-term securities(5)	**2,607.6**	1,116.9	**2,606.0**	1,119.1
Bank loans(6)	**499.0**	884.0	**499.0**	880.3
Woolworths Income Notes(7)	**–**	600.0	**–**	600.0
Woolworths Notes(8)	**591.5**	–	**591.5**	–
	3,698.1	2,600.9	**3,696.5**	2,599.4
Secured				
Bank loans(9)	**5.9**	9.5	**–**	–
	3,704.0	2,610.4	**3,696.5**	2,599.4

The following items include capitalised borrowing costs and some liabilities are issued at other than face value.

Notes

(1)
$245.0 million (2005: $140.0 million) Commercial Paper was on issue at period end and $200.0 million Medium Term Notes issued in January 2002 are due to mature in January 2007.

(2)
$42.0 million (2005: $95.0 million) money market borrowings, on an 11am call basis, were outstanding at period end.

(3)
$125.0 million (2005: $nil) was drawn on a $400.0 million Standby facility maturing within the financial year of 2007.

(4)
$1.5 million (2005: $0.5 million) was drawn against a secured bank bill facility, due to mature in financial year 2007.

(5)
This comprises:
- $150.0 million Medium Term Notes issued in 1998, to mature August 2007. On $70.0 million of the $150.0 million of borrowings, interest is payable biannually at a fixed bond rate, on the remaining $80.0 million of borrowings, interest is payable quarterly at the Bank Bill Swap Rate plus a margin.
- $300.0 million Medium Term Notes issued in 2005, to mature in September 2008. Interest is payable biannually at a fixed bond rate.
- $350.0 million Medium Term Notes issued in 2006, to mature in March 2011. On $200.0 million of the $350.0 million interest is payable biannually at a fixed bond rate, on the remaining $150.0 million, interest is payable quarterly at the Bank Bill Swap Rate plus a margin.
- US$50.0 million (A$68.3 million) from a private placement of senior notes in the United States in 1997, maturing in September 2007.
- US$51.6 million (A$70.4 million) from a private placement of senior notes in the United States in 1997, maturing in September 2007.
- US$500.0 million (A$682.9 million) from a private placement of senior notes in the United States in 2005, maturing: US$100.0 million in April 2015, US$300.0 million in April 2017 and US$100.0 million in April 2020.
- US$725.0 million (A$990.2 million) of senior notes issued into the US bond market under Rule 144A (Regulation S) in 2005, maturing: US$300.0 million in November 2011 and US$425.0 million in November 2015.

(6)
$500.0 million (2005: $800.0 million) was drawn on a five-year $800.0 million syndicated revolving credit facility maturing in financial year 2010. Drawings are less than six months, and may be rolled over on maturity. Interest is payable on roll-over, at a rate calculated as the Bank Bill Swap Rate plus a margin. Adjusted by amortised borrowing costs of $1.0 million.

(7)
$600.0 million Woolworths Income Notes were fully redeemed on 5 June 2006.

(8)
$600.0 million in Woolworths Notes were issued on 5 June 2006. These notes are perpetual, unsecured, subordinated, cumulative notes. Woolworths Notes entitle holders to receive an unfranked, floating rate, cumulative distribution quarterly in arrears (which may be deferred by Woolworths at its discretion). Certain terms of the Woolworths Notes may be changed on a remarketing date (the first of which is 15 September 2011). Offset by unamortised borrowing costs of $8.5 million.

(9)
$5.9 million (2005: $9.5 million) was drawn on a bank loan secured by a mortgage over land and buildings and an equitable charge over the assets of a controlled entity.

	Consolidated As at 2006 $m	Consolidated As at 2005 $m	Woolworths Limited As at 2006 $m	Woolworths Limited As at 2005 $m

15 FINANCING ARRANGEMENTS

Unrestricted access was available at balance date to the following lines of credit:

	Consolidated 2006 $m	Consolidated 2005 $m	Woolworths Limited 2006 $m	Woolworths Limited 2005 $m
Total facilities				
Bank overdrafts	**26.3**	28.0	**11.0**	11.0
Bank loan facilities	**2,284.8**	2,335.0	**2,267.0**	2,320.0
	2,311.1	2,363.0	**2,278.0**	2,331.0
Used at balance date				
Bank overdrafts	**–**	–	**–**	–
Bank loan facilities	**674.5**	989.0	**667.0**	979.0
	674.5	989.0	**667.0**	979.0
Unused at balance date				
Bank overdrafts	**26.3**	28.0	**11.0**	11.0
Bank loan facilities	**1,610.3**	1,346.0	**1,600.0**	1,341.0
	1,636.6	1,374.0	**1,611.0**	1,352.0

Bank loan facilities may be drawn at any time, subject to the covenants of the lending agreements. The majority of facilities are denominated in Australian dollars with a small amount equivalent to A$3.3 million denominated in New Zealand dollars (2005: $nil). The bank overdraft facilities are unsecured and may be drawn at any time.

16 PROVISIONS

	Consolidated As at 2006 $m	Consolidated As at 2005 $m	Woolworths Limited As at 2006 $m	Woolworths Limited As at 2005 $m
Current				
Employee benefits (Note 24)	**511.3**	434.2	**409.1**	371.8
Self-insured risks(1)	**71.9**	68.1	**66.4**	64.9
Other(2)	**20.8**	21.2	**6.1**	6.1
	604.0	523.5	**481.6**	442.8
Non-current				
Employee benefits (Note 24)	**50.5**	44.4	**42.8**	38.4
Self-insured risks(1)	**254.9**	241.6	**235.3**	230.1
Other(2)	**35.3**	4.0	**18.5**	4.0
	340.7	290.0	**296.6**	272.5
Total provisions	**944.7**	813.5	**778.2**	715.3
Movements in self-insured risk provisions were as follows:				
Balance at start of period	**309.7**	283.0	**295.0**	270.0
Additional provisions recognised	**88.8**	102.8	**73.3**	95.9
Arising from acquisition of controlled entities	**2.8**	2.8	**–**	–
Reductions arising from payments/other sacrifices of future economic benefits	**(74.3)**	(78.9)	**(66.6)**	(70.9)
Effect of movements in foreign exchange rates	**(0.2)**	–	**–**	–
Balance at end of period	**326.8**	309.7	**301.7**	295.0
Current	**71.9**	68.1	**66.4**	64.9
Non-current	**254.9**	241.6	**235.3**	230.1
Movements in other provisions were as follows:				
Balance at start of period	**25.2**	11.2	**10.1**	12.7
Additional provisions recognised/(released)	**7.8**	20.9	**15.0**	(2.5)
Arising from acquisition of controlled entities	**34.3**	–	**–**	–
Reductions arising from payments	**(7.8)**	(6.9)	**(0.5)**	(0.2)
Effect of movements in foreign exchange rates	**(3.4)**	–	**–**	–
Balance at end of period	**56.1**	25.2	**24.6**	10.1
Current	**20.8**	21.2	**6.1**	6.1
Non-current	**35.3**	4.0	**18.5**	4.0

Notes

(1)
The provision for self-insured risks represents the estimated liability for workers' compensation and public liability claims in all Woolworths' self-insured jurisdictions based on actuarial valuations.

(2)
Current and non-current other provisions consist predominantly of provisions for onerous lease contracts. Current other provisions at 26 June 2005 consist predominantly of a provision for restructure in ALH.

	Consolidated As at 2006 $m	Consolidated As at 2005 $m

17 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

Movements in investments in associates	2006 $m	2005 $m
Equity accounted amount at the beginning of the financial year	–	3.6
Share of profit from ordinary activities before tax	–	3.6
Share of income tax expense related to ordinary activities	–	(1.1)
	–	**2.5**
Dividend received	–	(2.5)
Acquisition of controlling interest in associate[1]	–	(3.6)
Equity accounted amount at the end of the financial year	–	–

Note

(1)
During the year ended 26 June 2005, Woolworths obtained control of the ALH Group Pty Ltd (formerly known as Bruandwo Pty Ltd) which is owned 75% by Woolworths and 25% by the Bruce Mathieson Group.

18 ISSUED CAPITAL

Issued and paid-up share capital

1,171,890,672 fully paid ordinary shares (2005: 1,049,668,030)
Fully paid ordinary shares carry one vote per share and the right to dividends.

	Consolidated As at 2006 $m	Consolidated As at 2005 $m	Woolworths Limited As at 2006 $m	Woolworths Limited As at 2005 $m
Reconciliation of fully paid share capital				
Balance at beginning of period	**981.0**	575.4	**981.0**	575.4
Issue of shares as a result of options exercised under Executive Share Option Plan	**22.5**	104.7	**22.5**	104.7
Issue of shares as a result of Dividend Reinvestment Plan	**613.1**	297.9	**613.1**	297.9
Incremental proceeds from sale of forfeited shares under Employee Share Plan	**1.2**	3.0	**1.2**	3.0
Issue of shares as consideration for acquired entity	**1,330.0**	–	**1,330.0**	–
Balance at end of period	**2,947.8**	981.0	**2,947.8**	981.0

	No. (m)	No. (m)	No. (m)	No. (m)
Reconciliation of fully paid share capital				
Balance at beginning of period	**1,049.7**	1,007.7	**1,049.7**	1,007.7
Issue of shares as a result of options exercised under executive share option plan	**3.2**	20.0	**3.2**	20.0
Issue of shares as a result of Dividend Reinvestment Plan	**35.6**	19.5	**35.6**	19.5
Issue of shares from sale of forfeited shares under Employee Share Plan	**1.8**	2.5	**1.8**	2.5
Issue of shares as consideration for acquired entity	**81.6**	–	**81.6**	–
Balance at end of period	**1,171.9**	1,049.7	**1,171.9**	1,049.7

18 ISSUED CAPITAL (CONTINUED)

Shares held in trust

	Consolidated As at 2006 $m	Consolidated As at 2005 $m	Woolworths Limited As at 2006 $m	Woolworths Limited As at 2005 $m
Reconciliation of shares held in trust				
Balance at beginning of period	**(102.2)**	(120.6)	**(102.2)**	(120.6)
Issue of shares under Employee Share Plan	**15.1**	18.4	**15.1**	18.4
Balance at end of period	**(87.1)**	(102.2)	**(87.1)**	(102.2)

	No. (m)	No. (m)	No. (m)	No. (m)
Reconciliation of shares held in trust				
Balance at beginning of period	**11.8**	14.3	**11.8**	14.3
Issue of shares under Employee Share Plan	**(1.8)**	(2.5)	**(1.8)**	(2.5)
Balance at end of period	**10.0**	11.8	**10.0**	11.8

Share capital

Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' meetings.

In the event of winding up of the Company, ordinary shareholders rank after all other shareholders and creditors and are fully entitled to any proceeds of liquidation.

Changes to the then Corporations Law abolished the authorised and par value concept in relation to share capital issued from 1 July 1998. Therefore, the Company does not have a limited amount of authorised capital and issued shares do not have a par value.

Share options

In accordance with the provisions of the executive share option plan, as at 25 June 2006, executives had options over 30,346,968 ordinary shares, in aggregate, with 400,500 of those expiring 1 July 2009 (1999 Options), 309,375 expiring 1 July 2010 (2000 Options), 5,299,843 expiring 1 July 2011 (2001 Options), 4,612,000 expiring 31 December 2007 (2002 Options), 5,910,350 expiring 31 December 2008 (2003 Options), 7,099,500 expiring 31 December 2009 (2004 Options) and the remainder 6,715,400 Options expiring on 31 December 2010 (2005 Options).

As at 26 June 2005, executives had options over 29,020,082 ordinary shares, in aggregate, with 951,875 of those expiring 1 July 2009 (1999 Options), 2,252,125 expiring 1 July 2010 (2000 Options), 6,107,982 expiring 1 July 2011 (2001 Options), 5,386,000 expiring 31 December 2007 (2002 Options), 6,569,350 expiring 31 December 2008 (2003 Options), and the remainder, 7,752,750 expiring on 31 December 2009 (2004 Options). Executive share options carry no rights to dividends and no voting rights.

Further details of the Executive Share Option Plan are contained in Note 24 to the financial statements.

	Consolidated As at 2006 $m	Consolidated As at 2005 $m	Woolworths Limited As at 2006 $m	Woolworths Limited As at 2005 $m

19 RESERVES

	Consolidated 2006 $m	Consolidated 2005 $m	Woolworths Limited 2006 $m	Woolworths Limited 2005 $m
Hedging reserve	**(57.5)**	–	**(57.5)**	–
Foreign currency translation reserve	**(276.0)**	(0.1)	**–**	–
Remuneration reserve	**28.5**	15.3	**28.5**	15.3
Asset revaluation reserve	**16.4**	16.4	**–**	–
	(288.6)	31.6	**(29.0)**	15.3

Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred. The cumulative deferred gain or loss on the hedge is recognised in profit and loss when the hedged transaction impacts the profit or loss, consistent with applicable accounting policy.

Foreign currency translation reserve

The foreign currency translation reserve comprises all foreign exchange differences arising from the translation of the Financial Statements of foreign operations where their functional currency is different to the presentation currency of the reporting entity, as well as from the translation of liabilities that hedge the Company's net investment in a foreign subsidiary.

Remuneration reserve

The employee remuneration reserve comprises the fair value of share-based payment plans recognised as an expense in the income statement.

Asset revaluation reserve

The asset revaluation reserve arose on acquisition of previously equity accounted investment in MGW and relates to the change in fair value of the consolidated entity's interest in non-current assets from the date of acquisition of the initial investment to the date control was achieved.

19 RESERVES (CONTINUED)

	Consolidated As at 2006 $m	Consolidated As at 2005 $m	Woolworths Limited As at 2006 $m	Woolworths Limited As at 2005 $m
Movements				
Hedging reserve				
Balance at start of period	–	–	–	–
Effect of change in accounting policy	**(6.5)**	–	**(6.5)**	–
Cash flow hedges[1]	**(52.6)**	–	**(52.6)**	–
Deferred tax arising on hedges	**1.6**	–	**1.6**	–
Balance at end of period	**(57.5)**	–	**(57.5)**	–
Foreign currency translation reserve				
Balance at start of period	**(0.1)**	–	–	–
Net exchange differences on translation of foreign controlled entities	**(275.9)**	(0.1)	–	–
Balance at end of period	**(276.0)**	(0.1)	–	–
Remuneration reserve				
Balance at start of period	**15.3**	5.1	**15.3**	5.1
Compensation on share-based payments	**13.2**	10.2	**13.2**	10.2
Balance at end of period	**28.5**	15.3	**28.5**	15.3
Asset revaluation reserve				
Balance at start of period	**16.4**	–	–	–
Adjustment resulting from reversion to cost basis	–	23.4	–	–
Deferred tax arising on reversion to cost basis	–	(7.0)	–	–
Balance at end of period	**16.4**	16.4	–	–

Notes

(1)
Cash flow hedges includes gains/(losses) recognised in equity and gains/(losses) taken to the income statement.

20 RETAINED EARNINGS

	Consolidated As at 2006 $m	Consolidated As at 2005 $m	Woolworths Limited As at 2006 $m	Woolworths Limited As at 2005 $m
Retained earnings attributable to the members of Woolworths Limited				
Balance at start of the period	**1,063.8**	771.0	**700.1**	516.2
Effect of change in accounting policy	**(1.1)**	–	**(0.4)**	–
Woolworths Income Notes (WINs) issue cost[1]	–	(17.0)	–	(17.0)
Profit attributable to members of Woolworths Limited	**1,014.6**	816.2	**780.5**	707.3
Actuarial losses on defined benefit plans	**(15.0)**	(10.0)	**(15.0)**	(10.0)
Tax effect of actuarial losses	**4.5**	3.0	**4.5**	3.0
Employee Share Plan dividends and forfeitures	**2.0**	0.4	**2.0**	0.4
Dividends paid or provided (Note 6)	**(613.1)**	(499.8)	**(613.1)**	(499.8)
Balance at end of period	**1,455.7**	1,063.8	**858.6**	700.1

Notes

(1)
Following an amendment to the WINs Trust Deed, the WINs were reclassified to non-current interest bearing liability from shareholder equity. Accordingly, the issue costs of $17.0 million have been recorded as an adjustment to retained earnings.

	Consolidated As at 2006	2005

21 EARNINGS PER SHARE

Basic earnings per share (cents per share)	**90.89**	79.19
Diluted earnings per share (cents per share)	**90.33**	78.94

Basic earnings per share

The earnings and weighted average number of ordinary shares used in the calculation of basic earnings per share are as follows:

	$m	*$m*
Earnings (a)	**1,014.6**	816.2

	No. (m)	*No. (m)*
Weighted average number[(1)] of ordinary shares (b)	**1,116.3**	1,030.6

Diluted earnings per share

The earnings and weighted average number of ordinary shares and potential ordinary shares used in the calculation of diluted earnings per share are as follows:

	$m	*$m*
Earnings (a)	**1,014.6**	816.2

	No. (m)	*No. (m)*
Weighted average number[(1)] of shares and potential ordinary shares (c)	**1,123.1**	1,033.9

(a) Earnings used in the calculations of basic and diluted earnings per share reconciles to net profit in the income statement as follows:

	$m	*$m*
Operating net profit attributable to the members of Woolworths Limited	**1,014.6**	816.2
Earnings used in the calculations of basic and diluted earnings per share	**1,014.6**	816.2

(b) Options are considered to be potential ordinary shares and are therefore excluded from the weighted average number[(1)] of ordinary shares used in the calculation of basic earnings per share. Where dilutive, potential ordinary shares are included in the calculation of diluted earnings per share.

(c) Weighted average number of ordinary shares and potential ordinary shares used in the calculation of diluted earnings per share reconciles to the weighted average number of ordinary shares used in the calculation of basic earnings per share as follows:

	No. (m)	*No. (m)*
Weighted average number of ordinary shares used in the calculation of basic earnings per share.	**1,116.3**	1,030.6
Shares deemed to be issued for no consideration in respect of outstanding employee options	**6.8**	3.3
	1,123.1	1,033.9

Since 25 June 2006, 2,759,053 shares (2005: 402,000) have been issued (as a result of the exercise of options). No options (2005: nil) have been issued.

Note

(1)
Weighted average number of shares has been adjusted to remove the potential ordinary shares under the Employee Share Plan held by the custodian company, which is consolidated under AIFRS.

22 CONTINGENT LIABILITIES

The details and estimated maximum amounts of contingent liabilities which may become payable are shown below. No provision has been made in the Financial Statements in respect of these contingencies, however there is a provision of $326.8 million for self-insured risks (2005: $309.7 million), which includes liabilities relating to workers compensation claims, that has been recognised in the balance sheet at balance date.

	Consolidated As at		*Woolworths Limited As at*	
	2006 $m	*2005 $m*	*2006 $m*	*2005 $m*
Guarantees				
Bank guarantees[(1)]	**52.8**	23.4	**8.7**	9.1
Workers compensation self-insurance guarantees[(2)]	**362.4**	304.5	**362.4**	304.5
Litigation				
Litigation in progress or threatened against the Company and certain of its controlled entities	**13.6**	17.1	**13.6**	17.1
Other				
Outstanding letters of credit issued to suppliers	**38.1**	41.1	**20.6**	24.5
Guarantees arising from the deed of cross guarantee with other entities in the wholly-owned group[(3)]	**–**	–	**320.0**	262.5
	466.9	386.1	**725.3**	617.7

Notes

(1)
This item mainly comprises guarantees relating to conditions set out in development applications for sale of properties in the normal course of business.

(2)
State WorkCover authorities require guarantees against workers compensation self-insurance liabilities. The guarantee is based on independent actuarial advice of the outstanding liability. Guarantees held at each balance date do not fully represent the liability at these dates due to delays in issuing the guarantees.

(3)
As disclosed in Note 28 the Company has entered into a deed of cross guarantee with certain wholly-owned controlled entities. The amount disclosed as a contingent liability represents total liabilities of the group of companies party to that class order excluding intercompany loans. The extent to which an outflow of funds will be required is dependent on the future operations of the entities that are party to the deed of cross guarantee being more or less favourable than currently expected. The deed of cross guarantee will continue to operate for the foreseeable future.

	Consolidated As at		Woolworths Limited As at	
	2006 $m	2005 $m	2006 $m	2005 $m
23 COMMITMENTS FOR EXPENDITURE				
Capital expenditure commitments				
Estimated capital expenditure under firm contracts, not provided for in these Financial Statements, payable:				
Not later than one year	**265.0**	618.0	**179.8**	332.3
Later than one year, not later than two years	**2.6**	76.5	**0.3**	76.5
	267.6	694.5	**180.1**	408.8
Operating lease commitments				
Future minimum rentals under non-cancellable operating leases not provided for in these Financial Statements, payable:				
Not later than one year	**1,057.9**	883.5	**753.2**	685.2
Later than one year, not later than five years	**3,756.3**	2,971.2	**2,702.2**	2,361.6
Later than five years	**7,552.3**	6,505.2	**5,191.1**	4,549.8
	12,366.5	10,359.9	**8,646.5**	7,596.6
Total commitments for expenditure	**12,634.1**	11,054.4	**8,826.6**	8,005.4

The commitments set out above do not include contingent turnover rentals, which are charged on many of the retail premises leased by the Company and its controlled entities. These rentals are calculated as a percentage of the turnover of the store occupying the premises, with the percentage and turnover threshold at which the additional rentals commence varying with each lease agreement.

The consolidated entity and the Company lease retail premises and warehousing facilities for periods of up to 40 years. The operating lease commitments include leases for the Norwest office and distribution centres. Generally the lease agreements are for initial terms of between 10 and 15 years and most include multiple renewal options for additional five-year terms. Under most leases, the consolidated entity and the Company are responsible for property taxes, insurance, maintenance and expenses related to the leased properties. However, many of the more recent lease agreements have been negotiated on a gross or semi-gross basis, which eliminates or significantly reduces the lessee's exposure to operational charges associated with the properties.

24 EMPLOYEE BENEFITS

	Consolidated As at 2006 $m	Consolidated As at 2005 $m	Woolworths Limited As at 2006 $m	Woolworths Limited As at 2005 $m
The aggregate employee benefit liability recognised and included in the Financial Statements is as follows:				
Provision for employee benefits				
Current (Note 16)	**511.3**	434.2	**409.1**	371.8
Non-current (Note 16)	**50.5**	44.4	**42.8**	38.4
Accrued liability for defined benefit obligations (included in other non-current liabilities)	**38.0**	32.0	**38.0**	32.0
Accrued salaries and wages (included in trade and other payables)	**191.6**	177.9	**164.8**	162.8
	791.4	688.5	**654.7**	605.0

Defined benefit superannuation plans

The following disclosures in relation to defined benefit superannuation plans comprise two sections:

(a) liability for defined benefit obligation – sets out the accounting for the plan as recognised in the financial statements of the consolidated entity and the Company in accordance with AASB 119 Employee Benefits; and

(b) funding of vested benefits – sets out the consolidated entity's approach to funding the accrued vested benefits payable under the plan. This approach is in accordance with applicable superannuation laws' guidelines and uses different assumptions to the measurement of benefits in section (a).

(a) Liability for defined benefit obligation

	As at 25 June 2006 $m	As at 26 June 2005 $m
Defined benefit obligation[1]	**(1,282)**	(1,075)
Fair value of assets	**1,244**	1,043
Liability for defined benefit obligations	**(38)**	(32)
Experience adjustments – liabilities	**102**	52
Experience adjustments – assets	**(71)**	(41)

The consolidated entity and the Company have used the AASB 1.20A exemption and disclosed amounts under AASB 1.20A(p) above for each annual reporting period prospectively from the transition date.

The consolidated entity and Company make contributions to a defined benefit plan, Woolworths Group Superannuation Plan (WGSP) that provides superannuation benefits for employees upon retirement.

The Company sponsors the plan which consists of an accumulation benefit funded by a defined contribution section of membership as well as a defined benefits section. The plan also pays allocated pensions to a small number of pensioners.

The members and assets of the Woolworths Group Superannuation Scheme (WGSS) were transferred to the AMP Signature Super Master Trust under successor fund conditions on 6 June 2006. The new fund will provide the same superannuation benefits for employees on retirement as the plan had up to 5 June 2006.

All disclosures in this Note are for the consolidated entity and the Company.

Movements in the net liability for defined benefit obligations recognised in the balance sheet

	As at 25 June 2006 $m	As at 26 June 2005 $m
Opening net liability for defined obligations	**(32)**	(31)
Contributions by employer	**96**	82
Expense recognised in the income statement	**(87)**	(73)
Actuarial losses recognised directly in equity (Note 20)	**(15)**	(10)
Closing net liability for defined benefit obligations	**(38)**	(32)

Actuarial losses recognised in the statement of recognised income and expense during the year were $15 million (2005: $10 million), with cumulative actuarial losses of $25 million.

Note **(1)** Includes contribution tax liability.

24 EMPLOYEE BENEFITS (CONTINUED)

Changes in the present value of the defined benefit obligation are as follows:

	As at 25 June 2006 $m	As at 26 June 2005 $m
Opening defined benefit obligation	**1,075**	926
Current service cost	**100**	99
Interest cost	**70**	46
Actuarial losses	**86**	51
Employee contributions	**76**	80
Benefits paid	**(125)**	(127)
Closing defined benefit obligation	**1,282**	1,075

Changes in the fair value of fund assets are as follows:

	As at 25 June 2006 $m	As at 26 June 2005 $m
Opening fair value of fund assets	**1,043**	895
Expected return[1]	**83**	72
Actuarial gains[1]	**71**	41
Contributions by employer	**96**	82
Employee contributions	**76**	80
Benefits paid	**(125)**	(127)
Closing fair value of fund assets	**1,244**	1,043

Note

(1)
The actual return on plan assets was $154 million (2005: $113 million).

The fair value of assets includes no amounts relating to any of the Company's own financial instruments nor any property occupied by, or other assets used by, the Company.

The major categories of fund assets as a percentage of total fund assets are as follows:

	%	%
Overseas equities	**27%**	26%
Australian equities	**27%**	33%
Fixed interest securities	**21%**	21%
Property	**13%**	10%
Alternatives	**9%**	4%
Cash	**3%**	6%

Expense recognised in the income statement

	$m	$m
Current service costs	**100**	99
Interest cost	**70**	46
Expected return on fund assets	**(83)**	(72)
	87	73

The expense is recognised in the balances disclosed in Note 2(d).

The defined benefit obligations have been determined by the plan actuary, Mr John Burnett, FIAA, Watson Wyatt, using the projected unit cost method. The following are the principal actuarial assumptions used.

	As at 25 June 2006 %	As at 26 June 2005 %
Discount rate (gross of tax)	**5.79%**	5.11%
Discount rate (net of tax)	**4.90%**	4.30%
Expected return on fund assets	**7.20%**	7.90%
Future salary increases	**4.00%**	3.00%

The expected returns on assets assumption is determined by weighting the expected long-term return for each asset class by the target allocation of assets to each class. The returns used for each asset class are net of investment tax and investment fees.

Contributions for permanent salaried employees of the Company and its controlled entities are made to certain Company sponsored superannuation funds including the plan. These superannuation funds provide lump sum accumulation benefits to members on retirement or death. The Company and certain of its controlled entities are legally obliged to contribute to the Company-sponsored plan at fixed rates as set out in the Trust Deed and Rules and the Participation Deed between the Company and AMP Superannuation Limited. Members contribute to the plan at fixed rates dependent upon their membership category.

The expected Company and employee contributions to the WGSP for the 2007 financial year are $95.0 million and $42.0 million respectively.

The Company is also obliged to contribute at fixed rates to defined contribution retirement plans for certain employees under industrial agreements, fund choice legislation and the Superannuation Guarantee Legislation. The Company and its controlled entities contribute to various industry-based superannuation funds and to the plan for non-salaried employees.

(b) Funding of vested benefits

The Company funds the benefits payable from the plan using a method which provides funding up to members' vested benefits. Vested benefits are those benefits that would be currently payable to members on retirement or resignation from the Company or its controlled entities that do not depend on any other factor.

This funding method is permitted by the Plan Participation Deed, Plan Rules and superannuation law and defers the cost of funding members' benefits up until the time the Company financed benefits become vested in the members. Annual actuarial reviews are performed to monitor the scheme's funding position.

WGSS vested benefits based on the last actuarial review, and assets at net market value based on the last annual financial report dated 31 August 2005, are set out below.

	2005 $m	2004 $m	2003 $m
WGSS assets at net market value	1,079.8	899.0	769.0
Members vested benefits reserve(1)	1,076.6(2)	893.5(3)	762.9(4)
Excess of WGSS assets over members vested benefit reserves	3.2	5.5	6.1

Notes

(1) Members vested benefits reserves are the sum of members vested benefits plus the Additional Death Benefit Reserve.

(2) Actual members vested benefits reserves as at 31 August 2005.

(3) Actual members vested benefits reserves as at 31 August 2004.

(4) Actual members vested benefits reserves as at 31 August 2003.

24 EMPLOYEE BENEFITS (CONTINUED)

Valuation of vested and accrued benefits for funding purposes

Full actuarial valuations of WGSS are made at intervals of no more than three years. The last actuarial valuation was as at 31 August 2005. A report dated 31 May 2006 by actuary John Burnett, FIAA, concluded that the available net assets of WGSS were sufficient to meet all benefits payable in the event of WGSP winding up, or the voluntary or compulsory termination of the employment of each member within the Company and its controlled entities.

Member accrued benefits, based on the last actuarial report, and the last annual financial report of WGSS dated 31 August 2005, were $1,106.2 million. Accrued benefits are the actuarial value of the benefits that the WGSS is expected to pay at some future date and represent the sum of the members' accrued benefits plus the Additional Death Benefit Reserve.

If the accrued benefits funding method was used for the scheme for the year ended 31 August 2005, a comparison of Woolworths Super's assets to members accrued benefits reserves would show a deficit estimated to be $26.4 million (at 31 August 2004 $30.2 million). There is no obligation on the part of Woolworths Limited to fund this deficit.

Share-based payments

Executive Option Plan (Long-Term Incentive Plan)

Long-term incentives have been in place since 1993 and have been provided through various executive option plans. Since 1999, long-term incentives have been provided through the Executive Option Plan which was designed to reward executives for share price and earnings growth. The Executive Option Plan has the following features:

- the exercise price is set at the weighted average market price of a Woolworths Limited ordinary share on the five trading days prior to the date approved by the Board as the effective date of options for the purpose of determining the exercise period and performance hurdles (offer date);
- an exercise period that commences after five years, subject to performance hurdles being met and with a maximum exercise period of five and a half years (10 years for options issued prior to 2002);
- upon exercise, each option entitles the option holder to one ordinary fully paid Woolworths Limited share (there is no settlement in cash);
- vesting is subject to two performance hurdles based on cumulative Earnings Per Share (EPS) growth and relative Total Shareholder Return (TSR) measured over the performance period in addition to a service condition. EPS and TSR offer a balance between internal and external performance indicators and are aligned to shareholder experiences;
- the performance measures, EPS growth and relative TSR each represent 50% of the options granted;
- EPS is the non-dilutive EPS which is measured as the net profit of the consolidated entity after outside equity interests divided by the weighted average number of shares on issue (including ordinary shares and dividend reinvestment allotments) over the performance period;
- options subject to the EPS performance hurdle vest in four tranches, dependent on attaining average annual growth of either 10% or 11% as follows:

Tranche	*Percentage of Options in total grant that may be exercised*	*Performance hurdle to be achieved for vesting*
Tranche 1	12.5%	4 year 10% EPS
Tranche 2	12.5%	4 year 11% EPS
Tranche 3	12.5%	5 year 10% EPS
Tranche 4	12.5%	5 year 11% EPS

- the fifth tranche (50% of options) is linked to relative TSR and measures the growth in the Company's share price plus dividends notionally reinvested in the Company's shares comparative to a peer group, measured over five years from the offer date but averaged for three months to eliminate volatility. This reflects the increase in value delivered to shareholders over the performance period;
- TSR performance is measured against comparator companies comprised of the S&P/ASX 100 Industrials Index, excluding companies in the ASX Banks and Finance Accumulation Index, ASX All Resources and ASX Trusts and any companies in the comparator group that have merged, had a share reconstruction or been delisted as at the measurement date;
- the percentage of the total number of options granted that vest is dependent on Woolworths Limited's ranking relative to the performance of the above comparator companies. The following table sets out the TSR vesting schedule:

Woolworths TSR equals or exceeds the following percentile of the peer group	*Percentage of options in total grant that vest and may be exercised*
60th percentile	12.5%
65th percentile	25.0%
70th percentile	37.5%
75th percentile	50.0%

The following table summarises movements for the financial year ended 25 June 2006 for outstanding options:

Offer Date	*Expiry Date*	*Exercise Price*	*No. of options 27 June 2005*	*No. of options granted during year*	*No. of options exercised during year*	*No. of options lapsed during year*	*No. of options 25 June 2006*	*No. of options exercisable 25 June 2006*
1/07/1999	1/07/2009	$5.11	951,875	–	(551,375)	–	400,500	400,500
1/07/2000	1/07/2010	$6.17	2,252,125	–	(1,942,750)	–	309,375	309,375
1/07/2001	1/07/2011	$10.89	6,107,982	–	(710,426)	(97,713)	5,299,843	521,627
1/07/2002	31/12/2007	$12.94	5,386,000	–	–	(774,000)	4,612,000	–
1/07/2003	31/12/2008	$12.60	6,569,350	–	–	(659,000)	5,910,350	–
1/07/2004	31/12/2009	$11.54	7,752,750	–	–	(653,250)	7,099,500	–
1/07/2005	31/12/2010	$16.46	–	6,906,300	–	(190,900)	6,715,400	–
			29,020,082	**6,906,300**	**(3,204,551)**	**(2,374,863)**	**30,346,968**	**1,231,502**

The weighted average share price during the financial year was $17.34.

The following table summarises movements for the financial year ended 26 June 2005 for outstanding options:

Offer Date	*Expiry Date*	*Exercise Price*	*No. of options 28 June 2004*	*No. of options granted during year*	*No. of options exercised during year*	*No. of options lapsed during year*	*No. of options 27 June 2005*	*No. of options exercisable 27 June 2005*
1/07/1999	1/07/2009	$5.11	20,794,375	–	(19,318,043)	(524,457)	951,875	951,875
1/07/2000	1/07/2010	$6.17	2,586,250	–	(328,125)	(6,000)	2,252,125	2,252,125
1/07/2001	1/07/2011	$10.89	6,739,000	–	(360,686)	(270,332)	6,107,982	447,898
1/07/2002	31/12/2007	$12.94	6,162,000	–	–	(776,000)	5,386,000	–
1/07/2003	31/12/2008	$12.60	7,331,350	–	–	(762,000)	6,569,350	–
1/07/2004	31/12/2009	$11.54	–	7,752,750	–	–	7,752,750	–
			43,612,975	**7,752,750**	**(20,006,854)**	**(2,338,789)**	**29,020,082**	**3,651,898**

24 EMPLOYEE BENEFITS (CONTINUED)

The weighted average share price during the financial year was $14.38.

The fair value of the services received in return for share options granted are measured by reference to the fair value of the share options granted. The fair value of the services is recognised as an expense on a straight-line basis over the vesting period and is determined by multiplying the fair value per option by the number of options expected to vest. During the financial year ended 25 June 2006, an expense of $10.47 million (2005: $7.5 million) was recognised in the income statement in relation to options issued under the Executive Option Plan.

The estimate of the fair value per option is measured based on the Monte Carlo simulation option pricing model performed by an independent valuer. The fair value is measured at the grant date which for the purposes of measurement is the date of unconditional offer by the Company and acceptance by the employee. This date differs to the offer date above, adjusted for assumed early exercise.

The contractual exercise period of the options set out above is used as an input into the model. Other inputs are:

Offer Date	*Share price at grant date*	*Exercise price*	*Expected Volatility*(1)	*Dividend yield*	*Risk free interest rate*	*Weighted average fair value of options granted*(2)
1/07/2003	$11.18	$12.94	18%	4.0%	5.15%	$1.16
1/07/2004	$15.32	$12.60	17%	3.2%	5.50%	$3.88
1/07/2005	$17.05	$11.54	16%	3.4%	5.40%	$2.22

Notes

(1)
The expected volatility is based on the historical implied volatility calculated based on the weighted average remaining life of the share options adjusted for any expected changes to future volatility due to publicly available information.

(2)
In accordance with AIFRS transition rules, an expense has only been recognised for the fair value of options granted on or after 7 November 2002.

The probability of achieving market performance conditions (TSR) is incorporated into the determination of the fair value per option. No adjustment is made to the expense for options that fail to meet the market condition. Non-market performance conditions (EPS and service condition) are not taken into account in the grant date fair value measurement. Instead the number of options expected to vest are adjusted over the vesting period in determining the expense to be recognised in the income statement.

Employee Share Plan (Share Plan)

The Share Plan was established to enable all employees (other than executive officers) the opportunity to participate in the acquisition of shares in the Company at market price with an interest-free loan from the Company to finance the acquisition. Loans are limited in recourse to the proceeds of sale of shares acquired. Dividends and other distributions on the shares are applied to repay the loan. The loan may be repaid at any time after three years and in any event must be settled when the employee ceases employment or at the end of 10 years from grant or when a takeover offer is accepted for the shares, whichever is the earliest. Upon settlement, if the employee elects not to repay the loan, the shares will be sold and the funds received after payment of costs and expenses will be applied to repay the loan. All shares acquired under the Share Plan are held by a wholly-owned subsidiary of the Company (Woolworths Custodian Pty Limited) as Trustee of the Share Plan. At any time after three years from the date of acquisition a participant may request the Trustee to transfer the shares, but only if the loan made to acquire those shares is repaid in full. Shares may be transferred earlier at the discretion of the Directors on the employee's death or retirement but only if the loan made to acquire the shares is repaid in full. The Trustee may exercise the voting rights attached to the shares in the manner directed by the Directors until they are transferred to the participant.

As at 25 June 2006, there were 20,848 (2005: 24,092) participating employees who held a total of 10,027,062 (2005: 11,811,971) shares. The total amount receivable by the Company in relation to these shares was $71,461,253 as at 25 June 2006 (2005: $74,414,734). During the 52 week period ended 25 June 2006, no shares were issued.

Due to the non-recourse nature of the loan, the loan is considered to be an option for accounting purposes as the employee is exposed to equity appreciation of the Company shares over the loan period with the option whether to repay the loan. The vesting period is three years from the offer date conditional on the employee remaining employed over this period. Any shares forfeited are sold on-market and the proceeds of this sale are contributed to the Woolworths Group Superannuation Plan. The number and weighted average exercise prices (being the loan value) of these options is as follows.

	Weighted average exercise price 2006	*No. of options 2006*	*Weighted average exercise price 2005*	*No. of options 2005*
Balance at the beginning of the period	**$7.51**	**11,811,971**	$7.64	14,261,125
Forfeited during the period	**$8.67**	**(723,777)**	$8.55	(1,241,637)
Exercised during the period	**$6.08**	**(1,061,132)**	$4.12	(1,207,517)
Balance at the end of the period	**$7.13**	**10,027,062**	$7.51	11,811,971
Exercisable at the end of the period	**$7.13**	**10,027,062**	$6.43	9,629,010

The weighted average share price during the period was $17.34 (2005: $14.38).

Employee Share Issue Plan (ESIP)

The ESIP allowed for the issue of shares to eligible employees for no monetary consideration. The ESIP complies with the various conditions specified by Government taxation legislation which enabled permanent employees to obtain a benefit of up to the $1,000 per employee per annum by way of a tax-free concession on discounts under employee incentive schemes.

During the 52 week period ended 25 June 2006 no shares (2005: $nil) were issued to qualifying employees.

Executive Management Share Plan (EMSP)

The EMSP allows any executive management, including any Executive Director, to forgo some of their future pre-tax remuneration to acquire shares in the Company on-market at prevailing market prices on the ASX. During the 52 week period ended 25 June 2006, 10,412 (2005: 13,224) shares were purchased under the EMSP. No additional expense is recognised in relation to these shares as they are acquired out of salary sacrificed remuneration.

25 KEY MANAGEMENT PERSONNEL

Directors and executives

All key management personnel were employed by Woolworths Limited during the year. The following is a list of the key management personnel of Woolworths Limited and their positions at the date of this report.

	Current position title
Executive Directors	
Roger Campbell Corbett	Group Managing Director and Chief Executive Officer
Michael Luscombe[1]	Chief Operating Officer
Non-executive Directors	
James Alexander Strong	Chairman of the Board and member of the Audit Committee and People Policy Committee
Leon Michael L'Huillier	Non-executive Director, member of the Audit Committee and Chair of the Woolworths Group Superannuation Scheme
Adrienne Elizabeth Clarke	Non-executive Director and member of the People Policy Committee
Roderick Sheldon Deane	Non-executive Director and member of the People Policy Committee[2]
Diane Jennifer Grady	Non-executive Director and member of the Audit Committee[2]
John Frederick Astbury	Non-executive Director and Chair of the Audit Committee
Executives	
Steve Bradley	Chief Logistics and Information Officer
Marty Hamnett[3]	Managing Director – Progressive Enterprises Limited
Naum Onikul[4]	Director of Supermarkets
Tom Pockett[5]	Chief Financial Officer

Notes

(1)
Mr Luscombe was appointed Chief Operating Officer on 1 June 2006 and it has been announced that Mr Luscombe will become CEO on 1 October 2006. Prior to 1 June 2006, he was Director of Supermarkets.

(2)
Dr Deane assumed the Chair of the People Policy Committee in August 2006, following the retirement of Ms Grady from the Committee as Chair in August 2006.

(3)
Mr Hamnett was appointed Managing Director – Progressive Enterprises Limited on 26 April 2006. Prior to this appointment Mr Hamnett was Director of Business Development.

(4)
Mr Onikul was appointed Director of Supermarkets on 1 July 2006. Prior to this appointment Mr Onikul was the Director of Liquor and Petrol.

(5)
On 1 June 2006 Mr Pockett was appointed Finance Director which will take effect in November 2006.

Mr Brookes was part of the key management personnel in 2005 and was appointed Director of Marketing on 1 July 2005. Mr Brookes resigned from the Company on 12 April 2006.

Total remuneration for key management personnel for the Group and the Company during the financial year are set out below.

Remuneration by category

	Consolidated	
	2006 *$*	*2005* *$*
Short-term employee benefits	**13,413,472**	12,985,157
Post-employment benefits	**4,081,291**	957,723
Other long-term benefits	**2,522,390**	3,204,444
Share-based payments	**1,079,766**	904,346
	21,096,919	18,051,670

As a result of the adoption of AIFRS, the basis for measuring the following elements of remuneration in the comparative period have changed:

- amounts for defined benefit plans have been included based on an allocation of the current service cost and recognised past service cost for each employee;
- amounts for accrued annual leave have been included in short-term employee benefits; and
- amounts for accrued long service leave have been included in other long-term benefits.

Comparative balances have been amended to reflect this change.

Equity instrument disclosures relating to key management personnel

Details of equity instruments provided as compensation to key management personnel and shares issued on exercise, together with terms and conditions of the options, are disclosed in tables in section 3.2 of the Remuneration Report on pages 46 to 50.

Share holdings

The number of fully paid ordinary shares in the Company held during the 52 weeks ended 25 June 2006 by each Director and other key management personnel of the Group, including their related parties, is set out below.

2006	*Opening balance* *No.*	*Shares issued under NEDSP*[1] *No.*	*Other changes*[2] *No.*	*Closing balance* *No.*
Directors				
J F Astbury	8,386	2,051	42	10,479
A E Clarke	38,766	2,051	682	41,499
R C Corbett	293,165	–	–	293,165
R S Deane	40,000	–	–	40,000
D J Grady	33,801	–	869	34,670
L M L'Huillier	119,044	–	(59,044)	60,000
J A Strong	68,137	1,879	–	70,016

Notes

(1)
Comprises shares issued under the Non-executive Directors' Share Plan (NEDSP).

(2)
Comprises new shares issued as a result of the Dividend Reinvestment Plan on the same basis as transactions by other shareholders and on-market transactions.

2006	*Opening balance* *No.*	*Received on exercise of options*[1] *No.*	*Other changes* *No.*	*Closing balance* *No.*
Other key management personnel				
S Bradley	61,863	262,500	(54,926)	269,437
M Hamnett	5,000	–	–	5,000
M Luscombe	656,926	75,000	(323,636)	408,290
N Onikul	500,000	–	(302,009)	197,991

Notes

(1)
The amount paid per share exercised was $6.17 and no amounts remain unpaid. No other options were exercised by key management personnel.

Mr Pockett held no shares at the beginning of, or during the financial year.

25 KEY MANAGEMENT PERSONNEL (CONTINUED)

2005	*Opening balance No.*	*Shares issued under NEDSP[1] No.*	*Net other changes[2] No.*	*Closing balance No.*
Directors				
J F Astbury	7,835	551	–	8,386
A E Clarke	35,669	2,414	683	38,766
R C Corbett	3,341,165	–	(3,048,000)	293,165
R S Deane	40,000	–	–	40,000
D J Grady	33,031	–	770	33,801
L M L'Huillier	119,044	–	–	119,044
J A Strong	65,925	2,212	–	68,137

Notes

(1)
Comprises shares issued under the Non-executive Directors' Share Plan (NEDSP).

(2)
Comprises new shares issued as a result of the Dividend Reinvestment Plan on the same basis as transactions by other shareholders and on-market transactions.

2005	*Opening balance No.*	*Received on exercise of options No.*	*Other changes No.*	*Closing balance No.*
Other key management personnel				
S Bradley	59,002	437,500	(434,639)	61,863
B Brookes	234,936	750,000	(469,570)	515,366
T Flood[1]	26,430	350,000	(349,220)	27,210
M Hamnett	5,000	300,000	(300,000)	5,000
M Luscombe	187,230	537,500	(67,804)	656,926
N Onikul	131,685	750,000	(381,685)	500,000

Note

(1)
Mr Flood retired 31 August 2004.

Option holdings
The numbers of options over ordinary shares in the Company held during the 52 weeks ended 25 June 2006 by each Director and other key management personnel of the Group, including their related parties, are set out below.

2006	*Opening Balance No.*	*Options Granted as Remuneration No.*	*Options Exercised No.*	*Closing Balance No.*	*Balance vested as at 25 June 2006 No.*	*Vested but not exercisable No.*	*Vested and exercisable No.*	*Options vested during year No.*
S Bradley	672,500	80,000	(262,500)	490,000	–	–	–	175,000
M Hamnett	460,000	40,000	–	500,000	100,000	–	100,000	50,000
M Luscombe	485,000	80,000	(75,000)	490,000	–	–	–	50,000
N Onikul	160,000	80,000	–	240,000	–	–	–	–
T Pockett	500,000	80,000	–	580,000	–	–	–	–

No other key management personnel hold options.

All share options issued to the key management personnel during the financial year were made in accordance with the provisions of the Executive Option Plan. The executives in the table above were granted options on 1 July 2005. The exercise value of the options granted was $16.46 per option. Further details of the terms and conditions of the Executive Option Plan and the options granted during the financial year are contained in Note 24 to the Financial Statements.

2005	*Opening Balance No.*	*Options Granted as Remuneration No.*	*Options Exercised No.*	*Closing Balance No.*	*Balance vested as at 26 June 2005 No.*	*Vested but not exercisable No.*	*Vested and exercisable No.*	*Options vested during year No.*
S Bradley	960,000	150,000	(437,500)	672,500	87,500	87,500	–	225,000
M Hamnett	610,000	150,000	(300,000)	460,000	50,000	37,500	12,500	250,000
M Luscombe	872,500	150,000	(537,500)	485,000	25,000	25,000	–	350,000
N Onikul	810,000	100,000	(750,000)	160,000	–	–	–	500,000
T Pockett	350,000	150,000	–	500,000	–	–	–	–

Loans to key management personnel

There were no loans to Directors of the Company or key management personnel.

26 RELATED PARTIES

Parent entity

The ultimate parent entity is Woolworths Limited, a company incorporated in New South Wales. The wholly-owned Group consists of Woolworths Limited and its wholly-owned controlled entities.

Subsidiaries

Disclosures relating to interests in subsidiaries are set out in Note 29.

Transactions within the Group

During the financial period and previous financial periods, Woolworths Limited advanced and repaid loans to and received loans from, and provided treasury, accounting, legal, taxation and administrative services to, other entities within the Group.

Entities within the Group also exchanged goods and services in sale and purchase transactions. All transactions occurred on the basis of normal commercial terms and conditions.

The details of revenue, interest and dividends transacted within the Group and with other partly-owned controlled entities are presented below:

	Consolidated As at		*Woolworths Limited As at*	
	2006 $	*2005 $*	*2006 $*	*2005 $*
Revenue	**–**	–	–	2,777,988
Dividend income	**–**	3,618,766	–	2,450,000
Interest income	**–**	418,139	**128,544,086**	25,107,644

The balances of loans to or from controlled entities is shown in Note 8 and Note 12.

Directors and key management personnel

Disclosures relating to Directors and key management personnel are set out in Note 25 and in the Remuneration Report, set out in Section 3 and Section 4 (except for sub-section 4.6) of the Directors' Report.

27 FINANCIAL INSTRUMENTS

(a) Financial risk management objectives

The consolidated entity's corporate treasury function provides services to the business, coordinates access to domestic and international financial markets, and manages the financial risks relating to the operations of the consolidated entity.

The consolidated entity does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes. The use of financial instruments is governed by the consolidated entity's policies approved by the Board of Directors, which provide written principles on the use of financial derivatives. Compliance with policies and exposure limits is reviewed by the internal auditors on a continuous basis.

The consolidated entity's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. The consolidated entity enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign currency risk, including:

- forward foreign exchange contracts to hedge the exchange risk arising on:
  - the import of goods for resale and capital expenditure;
  - the balances between Australian and New Zealand group entities;
- cross-currency swaps to manage the foreign currency risk associated with foreign currency borrowings; and
- interest rate swaps to mitigate the risk of rising interest rates.

(b) Significant accounting policies

Details of 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 and financial liability are disclosed in Note 1 to the Financial Statements.

(c) Foreign currency risk management

The consolidated entity has exposure to movements in foreign currency exchange rates through term borrowings and anticipated purchases of inventory and equipment, which are denominated in foreign currencies. In order to hedge against the majority of this exposure, the consolidated entity enters into forward exchange contracts and cross-currency swap agreements. The term borrowings are fully hedged.

Forward exchange contracts and foreign currency options

It is the policy of the consolidated entity to enter into forward foreign exchange contracts to cover foreign currency payments and receipts of up to 100% of the exposure generated.

At period end, the details of outstanding forward contracts and foreign currency options and collars, stated in Australian dollar equivalents are:

Outstanding contracts	*Average exchange rate* 2006	2005	*Foreign currency* 2006 FC'm	2005 FC'm	*Contract value* 2006 $m	2005 $m	*Movement in fair value* 2006 $m	2005 $m	*Total fair value* 2006 $m	2005 $m
Hedging imports										
Forward contracts										
Maturing:										
Within 12 months										
Buy United States dollars	**0.75**	0.77	**67.7**	61.0	**90.7**	79.4	**1.9**	0.1	**92.6**	79.5
Buy euros	**0.60**	0.63	**9.9**	16.1	**16.5**	25.7	**0.6**	(0.2)	**17.1**	25.5
Buy Great Britain pounds	–	0.41	–	2.9	–	7.2	–	(0.3)	–	6.9
Foreign currency options										
Collars										
Maturing:										
Within six months										
United States dollars	–	0.75/0.78	–	4.5	–	6.0	–	–	–	6.0
Hedging balance sheet										
Forward contracts										
Buy New Zealand dollars	**1.21**	–	**276.3**	–	**229.0**	–	**0.3**	–	**229.3**	–

As at reporting date, the aggregate amount of unrealised gains under forward foreign exchange contracts relating to anticipated future transactions is $2.8 million (2005: $0.4 million losses). In the current year, these unrealised gains have been recognised through the income statement.

The net investment in New Zealand is not hedged for currency fluctuation as the value of the investment is not currently expected to be realised through disposal.

27 FINANCIAL INSTRUMENTS (CONTINUED)

(c) Foreign currency risk management (continued)

Cross-currency swap agreements

To hedge the risk of adverse movements in foreign exchange rates in relation to US dollar denominated Senior Notes issued by the consolidated entity, it enters into cross-currency swap agreements under which it agrees to exchange specified principal and interest foreign currency amounts at an agreed future date at a specified exchange rate.

The following table details the cross-currency swaps outstanding at reporting date.

Outstanding contracts	*Average interest rate* 2006 %	2005 %	*Average exchange rate* 2006	2005	*Contract value* 2006 $m	2005 $m	*Fair Value* 2006 $m	2005 $m
Buy United States Dollars								
Maturing:								
Floating rates								
One to two years[1]	BBSW +41.5bp	–	0.745	–	67.1	–	2.7[5]	–
Two to three years[1]	–	BBSW +41.5bp	–	0.745	–	67.1	–	(0.8)
Five years plus[2]	BBSW +64bp	BBSW +60bp	0.753	0.787	1,627.1	635.3	(87.4)	24.1
					1,694.2	702.4	(84.7)	23.3
Maturing:								
Fixed								
One to two years[3]	7.10%	–	0.745	–	67.1	–	1.1[4]	–
Two to three years[3]	–	7.10%	–	0.745	–	67.1	–	2.0
Five years plus[3]	–	–	–	–	–	–	–	–
					67.1	67.1	1.1	2.0

Notes

(1)
These swap contracts have fair value hedge designation.

(2)
These swap instruments include an interest rate swap component which has been disclosed in the interest rate swap contract section below and have therefore been designated as cash flow hedges.

(3)
These swap contracts have cash flow hedge designation.

(4)
These fair value calculations include interest accruals of $15.6 million.

(5)
These fair value calculations include interest accruals of $0.3 million.

(d) Interest rate risk management

The consolidated entity is exposed to interest rate risk as it borrows funds at both fixed and floating interest rates. The risk is managed by maintaining an appropriate mix between fixed and floating rate borrowings, by the use of interest rate swap contracts.

Interest rate swap contracts

Under interest rate swap contracts, the consolidated entity agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the consolidated entity to mitigate the risk of changing interest rates on debt held. The fair value of interest rate swaps are based on market values of equivalent instruments at the reporting date and are disclosed below. The average interest rate is based on the outstanding balances at the end of the financial year.

The following table details the notional principal amounts and remaining terms of interest rate swap contracts outstanding as at reporting date:

Outstanding floating for fixed contracts	*Average contracted fixed interest rate*		*Notional principal amount*		*Fair value*	
	2006 %	*2005 %*	*2006 $m*	*2005 $m*	*2006 $m*	*2005 $m*
Forward contracts						
Less than one year	6.27%	5.81%	240.0	100.0	(0.4)	(0.2)
One to two years	5.59%	6.28%	385.0	40.0	2.8	(3.4)
Two to three years	5.83%	5.70%	370.0	215.0	2.3	(1.2)
Three to four years	5.55%	5.97%	50.0	370.0	1.2	(3.0)
Four to five years	5.86%	5.80%	250.0	200.0	4.3	(2.3)
Five years plus	5.84%	5.88%	1,627.1	735.3	45.4	(19.4)
			2,922.1	**1,660.3**	**55.6**[1]	**(29.5)**

The consolidated entity classifies interest rate swaps as cash flow hedges and states them at fair value, with the exception of one $67 million swap which is designated as a fair value hedge and also stated at fair value. All swaps have been designated and are effective as hedges.

Maturity profile of financial instruments

The following table details the consolidated entity's exposure to interest rate risk at 25 June 2006:

2006	*Floating Interest rate $m*	*Fixed interest maturing in:* One year or less $m	One to two years $m	Two to three years $m	Three to four years $m	Four to five years $m	Over five years $m	*Non-interest bearing $m*	*Total $m*	*Effective interest rate %*
Financial assets										
Cash and deposits	–	–	–	–	–	–	–	525.9	525.9	–
Trade and other receivables	–	–	–	–	–	–	–	1,054.8	1,054.8	–
Foreign currency contracts	–	–	–	–	–	–	–	2.8	2.8	–
Interest rate swaps	–	–	–	–	–	–	–	55.8	55.8	–
Currency swaps	–	–	–	–	–	–	–	3.0	3.0	–
Other financial assets	–	–	–	–	–	–	–	0.7	0.7	–
	–	–	–	–	–	–	–	1,643.0	1,643.0	–
Financial liabilities										
Accounts payable	–	–	–	–	–	–	–	2,778.5	2,778.5	–
Accruals	–	–	–	–	–	–	–	733.0	733.0	–
Unearned income	–	–	–	–	–	–	–	61.9	61.9	–
Provisions	–	–	–	–	–	–	–	944.7	944.7	–
Short-term securities	244.1	–	–	–	–	–	–	–	244.1	5.92%
Other bank loans:										
Fixed	–	0.5	–	–	–	–	5.9	–	6.4	6.80%
Variable	667.0	–	–	–	–	–	–	–	667.0	6.12%
Other loans	0.4	–	–	–	–	–	–	1.1	1.5	6.21%
Variable rate domestic notes	230.0	–	–	–	–	–	–	–	230.0	6.28%
Fixed rate domestic notes	–	199.7	70.2	299.3	–	197.9	–	–	767.1	6.08%
Interest rate swaps	(2,922.1)	240.0	385.0	370.0	50.0	250.0	1,627.1	–	–	–
USD notes	–	138.7	–	–	–	–	1,669.9	–	1,808.6	6.50%
WOW Notes	591.5	–	–	–	–	–	–	–	591.5	7.07%
Currency swaps	1,694.2	(67.1)	–	–	–	–	(1,627.1)	70.7	70.7	–
	505.1	511.8	455.2	669.3	50.0	447.9	1,675.9	4,589.9	8,905.0	–
Net financial liabilities	**(505.1)**	**(511.8)**	**(455.2)**	**(669.3)**	**(50.0)**	**(447.9)**	**(1,675.9)**	**(2,946.9)**	**(7,262.0)**	**–**

Note

(1)
This fair value calculation includes accrued interest as recorded in trade and other payables of $0.2 million.

27 FINANCIAL INSTRUMENTS (CONTINUED)

2005	Floating Interest rate $m	Fixed interest maturing in: One year or less $m	One to five years $m	Over five years $m	Non-interest bearing $m	Total $m	Average interest rate %
Maturity profile of financial instruments (continued)							
Financial assets							
Cash and deposits	36.5	–	–	–	397.3	433.8	5.50%
Trade and other receivables	–	–	–	–	495.4	495.4	–
Other financial assets	–	–	–	–	1.1	1.1	–
	36.5	**–**	**–**	**–**	**893.8**	**930.3**	**–**
Financial liabilities							
Accounts payable	–	–	–	–	2,335.6	2,335.6	–
Accruals	–	–	–	–	521.4	521.4	–
Unearned income	–	–	–	–	59.1	59.1	–
Provisions	–	–	–	–	813.5	813.5	–
Short-term securities	140.0	–	–	–	–	140.0	5.77%
Other bank loans:							
Fixed	–	–	7.0	–	–	7.0	6.80%
Variable	981.9	–	–	–	–	981.9	6.08%
Other loans	–	–	–	–	1.1	1.1	–
Variable rate domestic notes	80.0	–	–	–	–	80.0	5.34%
Fixed rate domestic notes	–	–	270.0	–	–	270.0	6.66%
USD notes	–	–	134.2	631.7	–	765.9	6.37%
WINs	600.0	–	–	–	–	600.0	7.68%
Interest rate swaps	(1,660.3)	100.0	825.0	735.3	–	–	6.01%
Cross-currency swaps:							
Fixed/floating	702.4	–	(67.1)	(635.3)	–	–	6.30%
	844.0	100.0	1,169.1	731.7	3,730.7	6,575.5	–
Net financial liabilities	**(807.5)**	**(100.0)**	**(1,169.1)**	**(731.7)**	**(2,836.9)**	**(5,645.2)**	**–**

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the consolidated entity. The consolidated entity has adopted a policy of only dealing with creditworthy counterparties as a means of mitigating the risk of financial loss from defaults and does not require collateral in respect of financial assets. The consolidated entity exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are approved by the Audit Committee. The consolidated entity measures credit risk on a fair value basis.

At the balance sheet date there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the balance sheet.

The credit risk on financial assets of the consolidated entity which have been recognised on the balance sheet, other than investments in shares, is generally the carrying amount, net of any allowance for doubtful debts.

The recognised financial assets of the consolidated entity include amounts receivable arising from unrealised gains on derivative financial instruments. For derivatives, which are deliverable, credit risk may also arise from the potential failure of the counterparties to meet their obligations under the respective contracts at maturity.

As at 25 June 2006, no material credit risk exposure existed in relation to potential counterparty failure on such financial instruments.

Liquidity risk

Liquidity risk arises through the possibility that sales income may be reduced due to adverse factors or through unusually large amounts falling due for payment.

The consolidated entity maintains a liquidity reserve in the form of undrawn bilateral standby facilities of at least $1 billion with unexpired tenors of at least 12 months at all times.

Fair value of financial assets and financial liabilities

The carrying value of cash and cash equivalents, financial assets and non-interest bearing monetary financial liabilities of the consolidated entity approximates their fair value (2005: net fair value) and as such they have been omitted from these disclosures.

The fair value of other monetary financial assets and liabilities is based upon market prices where a market exists or the expected future cash flows, discounted where appropriate by current interest rates for assets and liabilities with similar risk profiles.

For interest rate and cross-currency swaps, the fair value has been determined by the net present value of cash flows due under the contracts, using a discount rate appropriate to the type and maturity of the contract. For forward foreign currency contracts, the fair value is taken to be the unrealised gain or loss at period-end calculated by reference to the current forward rates for contracts with similar maturity profiles.

	As at 25 June 2006		*As at 26 June 2005*	
	Carrying amount $m	*Fair value $m*	*Carrying amount $m*	*Fair value $m*
Financial liabilities				
Bank loans(1)	**679.7**	**680.7**	989.0	989.0
Short-term securities(3,4)	**448.8**	**449.3**	140.0	139.6
Other loans(1,2,3)	**3,227.7**	**3,216.5**	1,720.5	1,824.8
Total(5)	**4,356.2**	**4,346.5**	2,849.5	2,953.4
Financial assets/(liabilities)				
Forward foreign currency contracts and foreign exchange options	**2.8**	**2.8**	–	(0.4)
Interest rate swaps	**55.6**	**55.6**	(0.3)	(29.5)
Cross-currency swaps	**(83.6)**	**(83.6)**	(8.7)	25.3
Total(6)	**(25.2)**	**(25.2)**	(9.0)	(4.6)

Notes

For the 2006 financial year the carrying amount for financial liabilities is based on the principal outstanding adjusted for:

(1)
unamortised borrowing costs (total of $13.9 million);

(2)
the effect of revaluation of USD borrowings (total of $50.4 million);

(3)
unamortised premium/discount on issue of MTNs (total of $1.6 million);

(4)
unamortised prepaid interest on CP issued (total of $0.9 million);

(5)
accrued interest as recorded in trade and other payables ($39.9 million); and

(6)
accrued interest as recorded in trade and other payables ($16.1 million).

28 DEED OF CROSS GUARANTEE

Pursuant to ASIC Class Order 98/1418, the wholly-owned subsidiaries listed below are relieved from the Corporations Act 2001 requirements for preparation, audit and lodgement of financial reports.

It is a condition of the class order that the Company and each of the subsidiaries enter into a Deed of Cross Guarantee (Deed). Under the Deed the Company guarantees the payment of all debts of each of the subsidiaries in full, in the event of a winding up. The subsidiaries in turn guarantee the payment of the debts of the Company in full in the event that it is wound up.

The subsidiaries that are party to the Deed are:

A.C.N. 001 259 301 Pty Limited
Advantage Supermarkets Pty Ltd
Advantage Supermarkets WA Pty Ltd
Andmist Pty. Limited
Australian Liquor and Grocery Wholesalers Pty Ltd
Australian Safeway Stores Pty. Ltd.
Barjok Pty Ltd
Calvartan Pty. Limited
Cenijade Pty. Limited
Charmtex Pty Ltd
Dentra Pty. Limited
Dick Smith (Wholesale) Pty Ltd
Dick Smith Electronics Franchising Pty Ltd
Dick Smith Electronics Pty Limited
Dick Smith Electronics Staff Superannuation Fund Pty Limited
Dick Smith Management Pty Ltd
Drumstar Pty Ltd
DSE Holdings Pty Limited
Fabcot Pty Ltd
Gembond Pty. Limited
GreenGrocer.com.au Pty Ltd
Grocery Wholesalers Pty Ltd
InterTAN Australia Pty Ltd
Jack Butler & Staff Pty. Ltd.
Josona Pty Ltd
Leasehold Investments Pty Ltd
Mac's Liquor Stores Pty Limited
Nalos Pty Ltd
PEH (NZ IP) Pty Ltd
Philip Leong Stores Pty Limited
Progressive Enterprises Holdings Limited
QFD Pty. Limited
Queensland Property Investments Pty Ltd
Shellbelt Pty. Limited
Universal Wholesalers Pty Limited
Weetah Pty. Limited
Woolies Liquor Stores Pty. Ltd
Woolstar Pty. Limited
Woolworths Australian Communities Foundation Pty Limited, formerly known as Barmos Pty Limited
Woolworths Custodian Pty Ltd
Woolworths Executive Superannuation Scheme Pty Limited
Woolworths Group Superannuation Scheme Pty Limited
Woolworths (International) Pty Limited
Woolworths Management Pty Ltd
Woolworths (Project Finance) Pty. Limited
Woolworths Properties Pty Limited
Woolworths (Publishing) Pty Ltd
Woolworths (Q'land) Pty Limited
Woolworths (R & D) Pty Limited
Woolworths (South Australia) Pty Limited
Woolworths Townsville Nominee Pty Ltd
Woolworths Trustee No. 2 Limited
Woolworths Trust Management Pty Limited
Woolworths (Victoria) Pty Limited
Woolworths (W.A.) Pty Limited

A consolidated income statement and consolidated balance sheet for the closed group representing the Company and the subsidiaries noted on pages 136 and 137, which are party to the Deed as at 25 June 2006 is set out below.
The following controlled entities (see Note 29) are excluded from this consolidation:

Australian Independent Retailers Pty Ltd
Statewide Independent Wholesalers Limited
DSE (NZ) Limited
David Reid Electronics (1992) Limited
Dick Smith Electronics Limited
Kiaora Lands Pty Limited
Woolstar Investments Limited
Woolworths Insurance Pte Limited
DSE Investments Inc.
Breeders Rights International Pty Ltd
Bergam Pty Limited
ALH Group Pty Ltd, formerly known as Bruandwo Pty Ltd
ALH Group Property Holdings Pty Limited,
(formerly known as Bruandwo Property Holdings Pty Ltd)
Albion Charles Hotel (BMG) Pty Ltd
Balaclava Hotel (BMG) Pty Ltd
Chelsea Heights Hotel (BMG) Pty Ltd
Cherry Hill Tavern (BMG) Pty Ltd
Courthouse Brunswick Hotel (BMG) Pty Ltd
Courthouse Hotel Footscray (BMG) Pty Ltd
Croxton Park Hotel (BMG) Pty Ltd
Daisey's Club Hotel (BMG) Pty Ltd
Excelsior Hotel (BMG) Pty Ltd
First and Last Hotel (BMG) Pty Ltd

Glengala Hotel (BMG) Pty Ltd
Lyndhurst Club Hotel (BMG) Pty Ltd
Manningham Hotel (BMG) Pty Ltd
Milanos Hotel (BMG) Pty Ltd
Monash Hotel (BMG) Pty Ltd
Moreland Hotel (BMG) Pty Ltd
Nu Hotel (BMG) Pty Ltd
Oakleigh Junction Hotel (BMG) Pty Ltd
Palace Hotel Hawthorn (BMG) Pty Ltd
Powel Hotel Footscray (BMG) Pty Ltd
Preston Hotel (BMG) Pty Ltd
Queensbridge Hotel (BMG) Pty Ltd
Racecourse Hotel (BMG) Pty Ltd
Shoppingtown Hotel (BMG) Pty Ltd
Waltzing Matilda Hotel (BMG) Pty Ltd
Wheelers Hill Hotel (BMG) Pty Ltd
Australian Leisure and Hospitality Group Limited
ALH Group (No. 1) Pty Ltd
MGW Hotels Pty Ltd
Kawana Waters Tavern No. 3 Pty Ltd,
(formerly known as Kawana Waters Hotel No. 3 Pty Ltd)
Kawana Waters Tavern No. 1 Pty Ltd,
(formerly known as Kawana Waters Hotel No. 1 Pty Ltd)
Kawana Waters Tavern No. 2 Pty Ltd,
(formerly known as Kawana Waters Hotel No. 2 Pty Ltd)
Dapara Pty Ltd
Stadform Developments Pty Limited
Fenbridge Pty. Ltd.
Vicpoint Pty Ltd
Aceridge Pty Limited
Chatswood Hills Tavern Pty Ltd
Taverner Hotel Group Pty. Ltd.
Amprok Pty. Ltd.
Auspubs Pty Ltd
Cooling Zephyr Pty Ltd
The Common Link Pty Ltd
E.G. Functions Pty. Ltd.
Elizabeth Tavern Pty. Ltd.
FG Joint Venture Pty Ltd
Fountain Jade Pty. Ltd.
Hadwick Pty Ltd
Markessa Pty. Ltd.
Playford Tavern Pty Ltd
Seaford Hotel Pty. Limited
The Second P Pty Ltd
Killrand Hotels (Hallam) Pty. Ltd.
Ashwick (Vic.) No.88 Pty. Ltd.
Warm Autumn Pty. Ltd.
Werribee Plaza Tavern Pty. Ltd.
Woolworths (HK) Sales Limited
Woolworths (HK) Procurement Limited
Woolworths Wholesale (India) Private Limited
WOW (NZ) Supermarkets Limited
WOW (NZ) Finance Limited
WOW (NZ) Holdings Limited
FAL Insurance Limited
Progressive Enterprises Limited
Caledonian Leasing Limited
Countdown Foodmarkets Limited
Foodtown Supermarkets Limited
Fresh Zone Limited
General Distributors Limited
S R Brands Limited
Supervalue/FreshChoice Limited
The Supply Chain Limited
Wholesale Services Limited
Wholesale Distributors Limited
Woolworths (New Zealand) Limited

28 DEED OF CROSS GUARANTEE (CONTINUED)

INCOME STATEMENT

	Consolidated 2006 $m	2005 $m
Revenues from the sale of goods	**31,883.1**	29,358.8
Other operating revenue	**109.8**	128.7
Total revenue from operations	**31,992.9**	29,487.5
Cost of sales	**(24,114.1)**	(22,226.9)
Gross profit	**7,878.8**	7,260.6
Other revenue	**110.9**	89.1
Other income	**16.7**	–
Share of profit in associated company	**–**	2.5
Branch expenses	**(5,034.8)**	(4,645.7)
Administration expenses	**(1,590.7)**	(1,502.7)
Earnings before interest and tax	**1,381.1**	1,203.8
Financial expense	**(261.9)**	(123.2)
Financial income	**188.4**	48.1
Net financing cost	**(73.6)**	(75.2)
Net profit before income tax expense	**1,307.5**	1,128.6
Income tax expense	**(382.2)**	(322.5)
Net profit after income tax expense	**925.3**	806.1
Reconciliation of retained profits		
Retained profit at the beginning of the period	**1,036.6**	753.9
Net profit after income tax expense	**925.3**	806.1
Dividends paid or provided	**(613.1)**	(499.8)
WINs issue costs	**–**	(17.0)
Actuarial losses on defined benefit plans	**(15.0)**	(10.0)
Other	**1.9**	3.4
Retained profits at the end of the period	**1,335.7**	1,036.6

As at 25 June 2006	Consolidated 2006 $m	2005 $m
BALANCE SHEET		
Current assets		
Cash	**361.3**	329.8
Trade and other receivables	**1,094.1**	565.0
Inventories	**1,973.8**	1,858.9
Assets held for sale	**110.5**	65.4
Other financial assets	**2.8**	–
Total current assets	**3,542.5**	2,819.0
Non-current assets		
Trade and other receivables	**1,992.2**	1,807.6
Other financial assets	**3,348.8**	70.6
Property, plant and equipment	**2,986.2**	2,921.0
Intangibles	**662.0**	606.9
Deferred tax asset	**303.0**	273.5
Total non-current assets	**9,292.2**	5,679.6
Total assets	**12,834.7**	8,498.6
Current liabilities		
Trade and other payables	**3,269.5**	2,754.4
Borrowings	**610.8**	235.0
Current tax liabilities	**96.5**	115.7
Provisions	**534.2**	487.0
Total current liabilities	**4,511.0**	3,592.1
Non-current liabilities		
Borrowings	**3,696.5**	2,599.4
Other financial liabilities	**70.7**	–
Provisions	**310.1**	288.4
Other	**79.0**	88.0
Total non-current liabilities	**4,156.3**	2,975.8
Total liabilities	**8,667.3**	6,567.9
Net assets	**4,167.4**	1,930.7
Equity		
Issued capital	**2,947.8**	981.0
Shares held in trust	**(87.1)**	(102.2)
Reserves	**(29.0)**	15.3
Retained earnings	**1,335.7**	1,036.6
Equity attributable to the members of Woolworths Limited	**4,167.4**	1,930.7
Total equity	**4,167.4**	1,930.7

29 CONTROLLED ENTITY DISCLOSURES

	Place of incorporation	Beneficial holding 2006 %	Beneficial holding 2005 %
Woolworths Limited NSW			
Controlled entities of Woolworths Limited:			
• Woolworths Properties Pty Limited	NSW	**100**	100
Controlled entity of Woolworths Properties Pty Limited:			
1. QFD Pty. Limited	ACT	**100**	100
2. Dentra Pty. Limited	ACT	**100**	100
Controlled entity of Dentra Pty Limited:			
1. Weetah Pty. Limited	NT	**100**	100
• Woolworths (Q'land) Pty Limited	NSW	**100**	100
• Queensland Property Investments Pty Ltd	QLD	**100**	100
• Woolworths (Victoria) Pty Limited	VIC	**100**	100
Controlled entity of Woolworths (Victoria) Pty Limited:			
1. Statewide Independent Wholesalers Limited	TAS	**60**	60
• Woolworths (South Australia) Pty Limited	SA	**100**	100
• Woolworths (W.A.) Pty Limited	WA	**100**	100
• Australian Liquor and Grocery Wholesalers Pty Ltd	NT	**100**	100
• Woolworths Trust Management Pty Limited	NSW	**100**	100
• Woolworths Trustee No. 2 Pty Limited	NSW	**100**	100
• Woolworths (Publishing) Pty Ltd	QLD	**100**	100
• Woolworths Australian Communities Foundation Pty Limited	NSW	**100**	100
• Charmtex Pty Ltd	NSW	**100**	100
• Universal Wholesalers Pty Limited	NSW	**100**	100
• Grocery Wholesalers Pty Ltd	NSW	**100**	100
• Australian Independent Retailers Pty Ltd	VIC	**49**	49
• DSE Holdings Pty Limited	NSW	**100**	100
Controlled entities of DSE Holdings Pty Limited:			
1. Dick Smith Electronics Pty Limited	NSW	**100**	100
Controlled entities of Dick Smith Electronics Pty Limited:			
1. Dick Smith Electronics Staff Superannuation Fund Pty Limited	NSW	**100**	100
2. Dick Smith (Wholesale) Pty Ltd	NSW	**100**	100
3. Dick Smith Management Pty Ltd	NSW	**100**	100
4. Dick Smith Electronics Franchising Pty Ltd	NSW	**100**	100
5. DSE (NZ) Limited	NZ	**100**	100
Controlled entities of DSE (NZ) Limited:			
1. David Reid Electronics (1992) Limited	NZ	**100**	100
2. Dick Smith Electronics Limited	UK	**100**	100
3. InterTAN Australia Pty Ltd	NSW	**100**	100
• Woolworths Custodian Pty Ltd	NSW	**100**	100
• Fabcot Pty Ltd	NSW	**100**	100
Controlled entity of Fabcot Pty Ltd:			
1. Kiaora Lands Pty Limited	NSW	**100**	100
• Nalos Pty Ltd	NSW	**100**	100
• Barjok Pty Ltd	NSW	**100**	100
• Josona Pty Ltd	NSW	**100**	100
• Woolstar Investments Limited	NZ	**100**	100
• Woolworths Insurance Pte Limited	SING	**100**	100
• DSE Investments Inc.	USA	**100**	100
• A.C.N. 001 259 301 Pty Limited	NSW	**100**	100
• Woolstar Pty. Limited	ACT	**100**	100
• Woolworths (R & D) Pty Limited	NSW	**100**	100
Controlled entity of Woolworths (R & D) Pty Limited:			
1. Breeders Rights International Pty Ltd	VIC	**100**	100
• Advantage Supermarkets Pty Ltd	WA	**100**	100
Controlled entity of Advantage Supermarkets Pty Ltd:			
1. Advantage Supermarkets WA Pty Ltd	WA	**100**	100
• Andmist Pty. Limited	NSW	**100**	100

	Place of incorporation	Beneficial holding 2006 %	2005 %
• Woolworths (Project Finance) Pty. Limited	NSW	**100**	100
• GreenGrocer.com.au Pty Ltd	NSW	**100**	100
• Cenijade Pty. Limited	NSW	**100**	100
• Shellbelt Pty. Limited	NSW	**100**	100
• Gembond Pty. Limited	NSW	**100**	100
• Philip Leong Stores Pty Limited	QLD	**100**	100
• Woolies Liquor Stores Pty. Ltd.	SA	**100**	100
• Calvartan Pty. Limited	ACT	**100**	100
• Australian Safeway Stores Pty. Ltd.	VIC	**100**	100
• Jack Butler & Staff Pty. Ltd.	QLD	**100**	100
• Woolworths Group Superannuation Scheme Pty Ltd	QLD	**100**	100
• Woolworths Executive Superannuation Scheme Pty Limited	QLD	**100**	100
• Mac's Liquor Stores Pty Limited	QLD	**100**	100
• Bergam Pty Limited	NSW	**75**	75
• ALH Group Pty Ltd, formerly Bruandwo Pty Ltd	VIC	**75**	75
Controlled entities of ALH Group Pty Ltd:			
1. ALH Group Property Holdings Pty Limited, formerly Bruandwo Property Holdings Pty Ltd	VIC	**100**	100
2. Albion Charles Hotel (BMG) Pty Ltd	VIC	**100**	–
3. Balaclava Hotel (BMG) Pty Ltd	VIC	**100**	–
4. Chelsea Heights Hotel (BMG) Pty Ltd	VIC	**100**	–
5. Cherry Hill Tavern (BMG) Pty Ltd	VIC	**100**	–
6. Courthouse Brunswick Hotel (BMG) Pty Ltd	VIC	**100**	–
7. Courthouse Hotel Footscray (BMG) Pty Ltd	VIC	**100**	–
8. Croxton Park Hotel (BMG) Pty Ltd	VIC	**100**	–
9. Daisey's Club Hotel (BMG) Pty Ltd	VIC	**100**	–
10. Excelsior Hotel (BMG) Pty Ltd	VIC	**100**	–
11. First and Last Hotel (BMG) Pty Ltd	VIC	**100**	–
12. Glengala Hotel (BMG) Pty Ltd	VIC	**100**	–
13. Lyndhurst Club Hotel (BMG) Pty Ltd	VIC	**100**	–
14. Manningham Hotel (BMG) Pty Ltd	VIC	**100**	–
15. Milanos Hotel (BMG) Pty Ltd	VIC	**100**	–
16. Monash Hotel (BMG) Pty Ltd	VIC	**100**	–
17. Moreland Hotel (BMG) Pty Ltd	VIC	**100**	–
18. Nu Hotel (BMG) Pty Ltd	VIC	**100**	–
19. Oakleigh Junction Hotel (BMG) Pty Ltd	VIC	**100**	–
20. Palace Hotel Hawthorn (BMG) Pty Ltd	VIC	**100**	–
21. Powel Hotel Footscray (BMG) Pty Ltd	VIC	**100**	–

29 CONTROLLED ENTITY DISCLOSURES (CONTINUED)

	Place of incorporation	Beneficial holding 2006 %	Beneficial holding 2005 %
22. Preston Hotel (BMG) Pty Ltd	VIC	**100**	–
23. Queensbridge Hotel (BMG) Pty Ltd	VIC	**100**	–
24. Racecourse Hotel (BMG) Pty Ltd	VIC	**100**	–
25. Shoppingtown Hotel (BMG) Pty Ltd	VIC	**100**	–
26. Waltzing Matilda Hotel (BMG) Pty Ltd	VIC	**100**	–
27. Wheelers Hill Hotel (BMG) Pty Ltd	VIC	**100**	–
28. Australian Leisure and Hospitality Group Limited	VIC	**100**	100
Controlled entity of Australian Leisure and Hospitality Group Limited:			
1. ALH Group (No. 1) Pty Ltd	QLD	**100**	100
29. MGW Hotels Pty Ltd	QLD	**100**	100
Controlled entities of MGW Hotels Pty Ltd:			
1. Kawana Waters Tavern No. 3 Pty Ltd	QLD	**100**	100
Controlled entity of Kawana Waters Tavern No. 3 Pty Ltd:			
1. Kawana Waters Tavern No. 1 Pty Ltd	QLD	**100**	100
2. Kawana Waters Tavern No. 2 Pty Ltd	QLD	**100**	100
3. Dapara Pty Ltd	NSW	**100**	100
Controlled entity of Dapara Pty Ltd:			
1. Stadform Developments Pty. Limited	QLD	**100**	100
4. Fenbridge Pty. Ltd.	QLD	**100**	100
5. Vicpoint Pty Ltd	QLD	**100**	100
6. Aceridge Pty Limited	QLD	**100**	100
7. Chatswood Hills Tavern Pty. Ltd.	VIC	**100**	100
30. Taverner Hotel Group Pty. Ltd.	VIC	**100**	–
Controlled entities of Taverner Hotel Group Pty. Ltd.:			
1. Amprok Pty. Ltd.	VIC	**100**	–
2. Auspubs Pty Ltd	VIC	**100**	–
3. Cooling Zephyr Pty Ltd	VIC	**100**	–
4. The Common Link Pty Ltd	VIC	**100**	–
5. E.G. Functions Pty. Ltd.	VIC	**100**	–
6. Elizabeth Tavern Pty. Ltd.	SA	**100**	–
7. FG Joint Venture Pty Ltd	VIC	**100**	–
8. Fountain Jade Pty. Ltd.	VIC	**100**	–
9. Hadwick Pty Ltd	SA	**100**	–
10. Markessa Pty. Ltd.	VIC	**100**	–
11. Playford Tavern Pty Ltd	SA	**100**	–
12. Seaford Hotel Pty. Limited	VIC	**100**	–
13. The Second P Pty Ltd	VIC	**100**	–
14. Kilrand Hotels (Hallam) Pty. Ltd.	VIC	**100**	–
Controlled entities of Kilrand Hotels (Hallam) Group Pty Ltd:			
1. Ashwick (Vic.) No.88 Pty. Ltd.	VIC	**100**	–
15. Warm Autumn Pty. Ltd.	VIC	**100**	–
16. Werribee Plaza Tavern Pty. Ltd.	VIC	**100**	–
• Leasehold Investments Pty Ltd	WA	**100**	100
• Woolworths Townsville Nominee Pty Ltd	VIC	**100**	100

	Place of incorporation	Beneficial holding 2006 %	2005 %
• Woolworths (International) Pty Limited	VIC	**100**	–
Controlled entities of Woolworths (International) Pty Limited:			
1. Woolworths (HK) Sales Limited	HK	**100**	–
2. Woolworths (HK) Procurement Limited	HK	**100**	–
3. Woolworths Wholesale (India) Private Limited	IN	**100**	–
4. WOW (NZ) Supermarkets Limited	NZ	**100**	–
Controlled entity of WOW (NZ) Supermarkets Limited:			
1. WOW (NZ) Finance Limited, formerly Foodland N.Z. Finance Ltd	NZ	**100**	–
Controlled entity of WOW (NZ) Finance Limited:			
1. WOW (NZ) Holdings Limited, formerly Foodland (NZ) Holdings Ltd	NZ	**100**	–
Controlled entities of WOW (NZ) Holdings Limited:			
1. FAL Insurance Limited	NZ	**100**	–
2. Progressive Enterprises Limited	NZ	**100**	–
Controlled entities of Progressive Enterprises Limited:			
1. Caledonian Leasing Limited	NZ	**100**	–
2. Countdown Foodmarkets Limited	NZ	**100**	–
3. Foodtown Supermarkets Limited	NZ	**100**	–
4. Fresh Zone Limited	NZ	**100**	–
5. General Distributors Limited	NZ	**100**	–
6. S R Brands Limited	NZ	**100**	–
7. Supervalue/FreshChoice Limited	NZ	**100**	–
8. The Supply Chain Limited	NZ	**100**	–
9. Wholesale Services Limited	NZ	**100**	–
Controlled entity of Wholesale Services Limited:			
1. Wholesale Distributors Limited	NZ	**100**	–
10. Woolworths (New Zealand) Limited	NZ	**100**	–
• Woolworths Management Pty Ltd	VIC	**100**	–
• Progressive Enterprises Holdings Limited	VIC	**100**	–
Controlled entities of Progressive Enterprises Holdings Limited:			
1. Drumstar Pty Ltd	WA	**100**	–
2. PEH (NZ IP) Pty Ltd	VIC	**100**	–

30 BUSINESS ACQUISITIONS

Entity/business acquired 2006	*Principal activity*	*Date of acquisition*	*Proportion of ownership acquired*	*Cost of acquisition $m*
Changes in the composition of the Group				
Progressive Enterprises Holdings Limited and its controlled entities	Supermarkets	2/11/2005	100%	2,289.0[(1)]
26 hotels and eight club management contracts previously owned by interests associated with the Bruce Mathieson Group	Hotels and liquor retail	1/07/2005	75%	390.9[(2)]
33 leasehold hotels comprising the Taverner Hotel Group	Hotels	6/02/2006	75%	377.1
Miscellaneous businesses	Supermarkets and liquor retail	various	–	179.7
Total				3,236.7

Notes

(1)
The cost of acquisition includes consideration paid in cash, and consideration paid via the issuance of 81,592,689 shares in Woolworths Limited, plus acquisition costs. At the close of trading on 2 November 2005, shares in Woolworths Limited were trading at $16.30 per share.

(2)
The cost of acquisition includes cash consideration and consideration paid via the issuance of 191,700,000 shares in ALH Group Pty Ltd at a price of $1 per share, plus acquisition costs.

2005

ALH	Hotels and liquor retail	31/10/2004	75%	1,275.7[(1)]
MGW	Hotels and liquor retail	2/01/2005	25%	11.7[(2)]
Miscellaneous businesses	Supermarkets and liquor retail	various	–	95.3
Total				1,382.7

Notes

(1)
Acquisition of all the issued capital in ALH by Woolworths Limited 75% owned controlled entity ALH Group Pty Ltd.

(2)
Acquisition of an additional 25% interest in MGW to give Woolworths a 75% ownership interest.

Acquisition of Progressive Enterprises Holdings Limited and its controlled entities

On 2 November 2005, the consolidated entity acquired all the shares in Progressive Enterprises Holdings Limited and its controlled entities for $959,005,951 in cash and the issue of 81,592,689 shares in Woolworths Limited. At the close of trading on 2 November 2005, shares in Woolworths Limited were trading at $16.30 per share.

The acquired entity operates supermarket chains throughout New Zealand and also owns a number of supermarkets in Australia.

Since acquisition, the business has contributed $2,851.3 million in revenue and $39.5 million in net profit after tax to the consolidated entity.

All the shares in the following companies were acquired as part of the acquisition:

Companies registered in New Zealand

Foodland N.Z. Finance Limited	Wholesale Services Limited
Foodland (N.Z.) Holdings Limited	General Distributors Limited
FAL Insurance Limited	The Supply Chain Limited
Progressive Enterprises Limited	Wholesale Distributors Limited
	Caledonian Leasing Limited

Drumstar Pty Ltd
PEH (NZ IP) Pty Ltd
Progressive Enterprises Holdings Limited

The acquisition had the following effect on the consolidated entity's assets and liabilities:

	Woolworths recognised values $'000	*Fair value adjustments $'000*	*Notes*	*Acquired amounts $'000*
Cash	54,090	–		54,090
Receivables	41,440	–		41,440
Inventories	258,362	(1,641)		260,003
Prepayments and other assets	5,780	–		5,780
Property, plant and equipment	366,704	(26,217)	1	392,921
Intangible assets	244,663	158,279	2	86,384
Deferred tax asset	48,228	14,581	3	33,647
Accounts payable	(286,049)	–		(286,049)
Accruals	(82,713)	–		(82,713)
Current tax liabilities	(6,803)	–		(6,803)
Provisions	(74,724)	(18,080)	4	(56,644)
Interest bearing liabilities	(353,693)	–		(353,693)
Net identifiable assets and liabilities	**215,285**	**126,922**		**88,363**
Goodwill on acquisition	**2,073,682**			
Consideration paid, satisfied in cash	959,006			
Consideration paid via equity issuance	1,329,961			
	2,288,967			
Cash acquired	54,090			
Net cash outflow	**904,916**			

Notes

(1)
Property, plant and equipment in both Australia and New Zealand were subjected to fair value assessments upon acquisition in accordance with AASB 3.

(2)
An independent firm was engaged to conduct an external valuation of trademarks acquired. A value of $244.1 million was determined on the basis of the "relief from royalty" method.

(3)
The fair value adjustments booked upon acquisition has resulted in an uplift to the entity's deferred tax asset.

(4)
Represents onerous lease commitments identified and provided for in accordance with AASB 3.

At December 2005, the initial accounting had been determined provisionally. Revisions have been made to the fair value assessment for inventories, property, plant and equipment and provisions for onerous leases in accordance with AASB 3.

The cash consideration above includes costs incurred by the consolidated entity in relation to the acquisition.

Goodwill has arisen on acquisition of Progressive Enterprises Holdings Limited and its controlled entities primarily because of the capacity of the business to generate recurring revenue streams in the future and as the Company believes that it will be able to introduce additional synergies to the benefit of the overall business.

30 BUSINESS ACQUISITIONS (CONTINUED)

Acquisition of hotels and club management contracts associated with Bruce Mathieson

On 1 July 2005, ALH Group Pty Ltd (ALH Group), (formerly Bruandwo Pty Ltd) a 75% owned subsidiary of Woolworths Limited, acquired 26 hotels and eight club management contracts previously owned by interests associated with Bruce Mathieson for $199.2 million in cash, inclusive of acquisition costs and 191.7 million shares issued at a price of $1 per share. Since acquisition, the business has contributed $108.7 million in revenue and $19.0 million in net profit after tax to the consolidated entity before outside equity interests of $4.75 million.

The acquisition had the following effect on the consolidated entity's assets and liabilities:

	Woolworths recognised values $'000	*Fair value adjustments $'000*	*Notes*	*Acquired amounts $'000*
Cash	4,833			4,833
Inventories	1,709			1,709
Property, plant and equipment	208,406	17,409	1	190,997
Intangible assets	125,000	125,000	2	–
Deferred tax asset	985			985
Employee provisions	(3,282)			(3,282)
Net identifiable assets and liabilities	**337,651**	**142,409**		**195,242**
Goodwill on acquisition	**53,204**			
	390,855			
Consideration paid/payable	199,155			
Consideration paid via equity issuance	191,700			
	390,855			
Cash acquired	4,833			
Current and future cash flows	**194,322**			

Notes

(1)
An independent firm was engaged to conduct an external valuation of property, plant and equipment. This formed the basis of the fair value adjustments booked upon acquisition.

(2)
An independent firm was engaged to conduct an external valuation of the liquor and gaming licences acquired which have been valued at $125 million.

Goodwill has arisen on acquisition because of management expertise and customer relationships and synergies that the Company believes will benefit the overall business.

Acquisition of Taverner Hotel Group Pty Ltd

On 6 February 2006, ALH Group Pty Ltd acquired all the shares in Taverner Hotel Group Pty Ltd (THG) for $377.1 million in cash, inclusive of acquisition costs.

THG comprised 33 leasehold hotels located in Victoria (18), South Australia (12) and New South Wales (3). Included in this portfolio are a number of "icon" hotels such as Matthew Flinders, Village Tavern and Castle Hill Tavern. THG was the second largest gaming operator in Australia with approximately 2,000 gaming machines and around 1,900 employees.

THG provides an excellent strategic fit with the existing ALH Group hotel business providing premium complementary locations and an additional 27 retail liquor locations of which five Dan Murphy's future site opportunities exist.

This acquisition consolidates ALH Group's position in a highly fragmented industry in a highly profitable business segment. Since acquisition, the business has contributed $85.6 million in revenue and $6.9 million in net profit after tax to the consolidated entity before outside equity interests of $1.7 million.

The acquisition had the following effect on the consolidated entity's assets and liabilities:

	Woolworths recognised values $'000	*Fair value adjustments $'000*	*Notes*	*Acquired amounts $'000*
Cash	7,866	–		7,866
Receivables	1,535	–		1,535
Inventories	4,743	–		4,743
Prepayments and other assets	1,977	–		1,977
Current tax asset	2,627	–		2,627
Property, plant and equipment	43,727	–		43,727
Intangible assets – liquor licences	200,000	199,600	1	400
Deferred tax asset	2,936	–		2,936
Accounts payable	(16,057)	–		(16,057)
Current tax liabilities	(1,090)	–		(1,090)
Provisions	(9,773)	–		(9,773)
Net identifiable assets and liabilities	**238,491**	**199,600**		**38,891**
Goodwill on acquisition	**138,648**			
Consideration paid	**377,139**			
Cash acquired	7,866			
Net cash outflow	**369,273**			

Note

(1)
An independent firm was engaged to conduct an external valuation of the liquor and gaming licences acquired which have been valued at $200 million.

The initial accounting for the acquisition has been determined provisionally at the acquisition date. Goodwill has arisen on acquisition because of management expertise and customer relationships and synergies that the Company believes will benefit the overall business.

31 EXPLANATION OF TRANSITION TO AIFRS

Notes to the reconciliation of implementation of AIFRS
As stated in significant accounting policies Note 1, these are the first full year Financial Statements of the consolidated entity and the Company prepared in accordance with Australian equivalents to International Financial Reporting Standards (AIFRS).

The consolidated entity changed its accounting policies on 28 June 2004 to comply with AIFRS. The transition to AIFRS is accounted for in accordance with Accounting Standard AASB 1 First-time Adoption of Australian equivalents to International Reporting Standards, (AASB 1), with 28 June 2004 as the date of transition, except for financial instruments, including derivatives, where the date of transition is 27 June 2005. An explanation of how the transition from previous Australian GAAP (AGAAP) to AIFRS has affected the balance sheet, income statement and cash flows of the consolidated entity and the Company is set out in the following notes and the tables that accompany the notes.

A Reclassifications

Revenue
The AGAAP definition of revenue requires proceeds on sale of non-current assets to be included as revenue – this has the effect of "grossing up" the income statement. Under AIFRS the proceeds on disposal will no longer be disclosed as revenue. For the consolidated entity an amount of $303.4 million (Company: $17.1 million) was reclassified from other non-operating revenue to branch expenses for the 52 weeks ended 26 June 2005. The net gain on disposal of $10.2 million (Company: $4.9 million) for the 52 weeks ended 26 June 2005 was reclassified from branch expenses to other income. In addition, some $37.2 million (Company: $31.8 million) of operational expense has been reclassified from branch and administration expenses to other non-operating revenue in the 52 weeks ended 25 June 2006.

Dividend income of $3.6 million (Company: $2.4 million) has been reclassified from other non-operating revenue to financial income in the 52 weeks ended 26 June 2005.

Reserves
Woolworths has utilised the option available in AASB 1 to reclassify the capital profits reserve and general reserves to retained earnings. This transfer resulted in a decrease in these reserve balances of $66.2 million (Company: $2.6 million) and $46.9 million (Company: $45.5 million) respectively as at 28 June 2004 with a corresponding increase in retained earnings.

Assets held for sale
Under AIFRS, non-current assets classified as held for sale, are presented separately as current assets on the balance sheet. A non-current asset is classified as held for sale if:

– its carrying amount will be recovered principally through a sale transaction rather than through continuing use;
– the asset (or disposal group) is available for immediate sale in its current condition; and
– its sale is highly probable.

The consolidated entity applied AASB 5 Non-current Assets Held for Sale and Discontinued Operations, prospectively from 28 June 2004 to assets held for sale and discontinued operations. There is no adjustment at transition date. At 26 June 2005, for the consolidated entity this resulted in $45.3 million (Company: $nil) of assets being reclassified from non–current property, plant and equipment to current assets.

Trade and other receivables
Under AGAAP current and non-current other assets comprising prepayments and deferred costs were presented separately from current and non-current receivables, respectively, on the face of the balance sheet. Under AIFRS current and non-current other assets are grouped together with current and non-current receivables, respectively and presented as trade and other receivables on the face of the balance sheet. At the date of transition, this has the effect of decreasing current other assets and correspondingly increasing current trade and other receivables by $112.3 million (Company: $100.4 million). Non-current other assets decrease by $5.7 million (Company: $5.7 million) with a corresponding increase in non-current trade and other receivables at 28 June 2004.

At 26 June 2005, current and non-current other assets decrease by $109.2 million (Company: $96.1 million) and $10.9 million (Company: $10.9 million), respectively, with a corresponding increase in current and non-current trade and other receivables, respectively.

Trade and other payables
Under AGAAP accounts payables and accruals were presented separately on the face of the balance sheet. Under AIFRS trade payables and accruals are grouped together and presented as trade and other payables on the face of the balance sheet. At the date of transition this has the effect of decreasing accruals by $554.5 million (Company: $442.7 million) with a corresponding increase in trade and other payables. At 26 June 2005, accruals decreased by $651.9 million (Company: $456.7 million) with a corresponding increase in trade and other payables.

Intercompany balances
Intercompany receivables were presented net of intercompany payables under AGAAP. Under AIFRS, as there is no legal right of offset of receivables against payables owing from different counterparties, intercompany receivables are presented gross of intercompany payables. At the date of transition this has the effect of increasing the Company's non-current trade and other receivables and current trade and other payables by $436.8 million.

At 26 June 2005, the presentation of intercompany balances at gross increases the Company's non-current trade and other receivables and current trade and other payables by $451.4 million.

Provision for development losses
Provisions for development losses were presented in accruals under AGAAP. Under AIFRS this is presented in property, plant and equipment to write down the value of properties to their estimated recoverable amounts. At the date of transition this has the effect of decreasing both accruals and property, plant and equipment by $58.9 million (Company: $nil).

At 26 June 2005, accruals, assets held for sale and property, plant and equipment decrease by $75.6 million (Company: $nil), $8.1 million (Company: $nil) and $67.5 million (Company: $nil), respectively.

Provision for long service leave
Under AGAAP classification between current and non-current portions of the provision for long service leave was based on historic trends of payments and utilisation. Under AIFRS, provision for long service leave is classified as current when the employees' entitlements vest, consistent with the requirements of AASB 119 Employee Benefits. This has the effect of increasing the current portion of the provision for long service leave by $122.2 million (Company: $106.2 million) at the date of transition, with a corresponding decrease in the non-current portion.

At 26 June 2005, the current portion of the provision increased by $126.4 million (Company: $111.3 million) with a corresponding decrease in the non-current portion.

Investment in associate
Under AGAAP investment in associate with a carrying value of $3.6 million (Company: $nil) at 28 June 2004 was presented separately from other financial assets on the face of the balance sheet. Under AIFRS this balance is classified in other financial assets.

B Property, plant and equipment

On initial adoption of AIFRS, the Directors have elected that property, plant and equipment will be measured at cost. As permitted by the election available under AASB 1, certain items of property, plant and equipment that were previously revalued were restated at cost on transition. Consequently, the asset revaluation reserve balance of $63.3 million (Company: $nil) relating to these assets was adjusted against property, plant and equipment as at 28 June 2004 and depreciation of $10.3 million (Company: $nil) relating to the revaluations recognised prior to transition was reversed against retained earnings on transition. The remaining balance in the asset revaluation reserve of $8.6 million (Company: $0.6 million) represents revaluations that relate to assets disposed of in prior periods. This balance was transferred to retained earnings on transition. For the 52 week period ended 26 June 2005, further depreciation of $1.2 million (Company: $nil) relating to the previous revalued amounts was reversed from the AIFRS income statement.

AIFRS requires that all research activities in relation to a project be expensed as incurred, including evaluative and certain feasibility expenditure. Previously this expenditure was capitalised if it was expected, beyond reasonable doubt, to be recoverable. The carrying value of assets that have previously been capitalised up to the transition date amounting to $18.9 million (Company: $16.8 million), net of accumulated amortisation, was adjusted against retained earnings. During the 52 weeks ended 26 June 2005 a further $9.8 million (Company: $9.8 million) of assets, net of accumulated amortisation, which were capitalised under AGAAP were written off to the income statement under AIFRS.

C Leased assets

Operating lease expenditure
Under AASB 117 Leases, operating lease expenses are recognised on a straight-line basis unless another systematic basis is representative of the time pattern of the user's benefit, even if the payments are not on that basis. Fixed rate increases to lease rental payments, excluding contingent or index-based rental increases, such as CPI, turnover rental and other similar increases, are recognised on a straight-line basis over the lease term. An asset or liability arises for the difference between the amount paid and the lease expense brought to account on a straight-line basis. Under AGAAP, fixed rental escalations were recognised as an expense in the period that they were incurred.

This has resulted in the recognition of a deferred rental expense liability of $53.3 million (Company: $50.9 million) and a corresponding reduction in retained earnings as at transition date. There has been a decrease in the rental expense with a corresponding reduction in the liability of $3.8 million (Company: $6.6 million) for the 52 weeks ended 26 June 2005. A further $2.4 million (Company: $nil) was recognised against goodwill on acquisition of ALH during 2005.

D Business combinations

The consolidated entity has applied AASB 3 Business Combinations, to all business combinations that have occurred since 28 June 2004 (the date of transition to AIFRS).

The restructuring provision recognised on the acquisition of ALH under AGAAP as at 26 June 2005 does not meet the recognition requirements under AIFRS. As a result goodwill and profit before tax for the 52 weeks ended 26 June 2005 have decreased by $9.2 million (Company: $nil). This adjustment is net of tax of $3.9 million (Company: $nil).

31 EXPLANATION OF TRANSITION TO AIFRS (CONTINUED)

E Intangible assets

Goodwill

Goodwill represents the difference between the cost of a business combination and the net fair value of the identifiable assets, liabilities and contingent liabilities acquired. In respect of acquisitions prior to the transition date, goodwill has been included on the basis of its deemed cost, being its written down value recorded under previous AGAAP as at 28 June 2004.

Amortisation

From 28 June 2004, goodwill and intangible assets with indefinite useful life will not be subject to amortisation but instead will be tested for impairment annually and whenever there is an indication of impairment. Changes in useful life on transition to AIFRS are accounted for prospectively. As a result, the carrying amount of goodwill has increased by $41.8 million (Company: $22.5 million) at 26 June 2005, being the reversal of the goodwill amortisation charge for the 52 weeks ended 26 June 2005.

F Impairment

For the consolidated entity and the Company no impairment loss has been identified either on transition to AIFRS, or for the 52 weeks ended 26 June 2005.

G Foreign currency

Financial Statements of foreign operations

On initial adoption of AIFRS, as permitted by the elections available under AASB 1, the foreign currency translation reserve was reset to zero as at 28 June 2004 with an offsetting decrease in retained earnings of the consolidated entity of $0.4 million (Company: $nil). From 28 June 2004, the net assets and related goodwill on consolidation related to foreign operations have been restated at year end spot rates in accordance with AASB 121 The Effects of Changes in Foreign Exchange Rates.

H Employee benefits

Defined benefit plans

Woolworths is the employer-sponsor of a defined benefit superannuation fund. Under AIFRS, the employer sponsor is required to recognise a liability (or asset) where the present value of the defined benefit obligation, adjusted for unrecognised past service cost exceeds (is less than) the fair value of the underlying net assets of the fund (hereinafter referred to as the “defined benefit obligation”).

The resulting liability or asset is grossed up for any contributions tax as required by AASB 119 Employee Benefits (AASB 119) (revised). The basis of calculating the defined benefit obligation and related expenses under AIFRS, and the treatment of actuarial gains and losses is set out in Note 1Q.

Under previous AGAAP, Woolworths recognised contributions to the superannuation funds as an expense when due and payable and did not recognise any liability or asset in relation to fund deficits or surpluses unless there was a current obligation to fund the deficit. Woolworths’ contributions to the defined benefit superannuation funds were determined on a vested benefit basis. The additional funding that would be required if Woolworths were to have funded the accrued benefits have been disclosed in the Woolworths Annual Report for the 52 weeks ended 27 June 2004. The 2005 Annual Report disclosed a shortfall of $25.0 million (Company: $25.0 million) as of the latest actuarial valuation performed, being 31 August 2002.

At the date of transition, an amount of $31.0 million (Company: $31.0 million), including cumulative actuarial gains and losses existing at that time, was recognised as a liability of the consolidated entity and the Company with a corresponding decrease in retained earnings.

For the 52 weeks ended 26 June 2005 the adjustment in the consolidated entity to recognise the increase in the defined benefit obligation for the financial year is $1.0 million (Company: $1.0 million). An expense relating to the defined benefit plan of $73.0 million (Company: $73.0 million) was recognised under AIFRS with a further $10.0 million (Company: $10.0 million) recognised directly in retained earnings (representing the actuarial gains and losses for the period). The previous AGAAP expense for the 52 week period ended 26 June 2005, being the contributions paid by the consolidated entity to the fund, of $82.0 million (Company: $82.0 million) is reversed under AIFRS. This resulted in a net increase to the net profit before tax compared to previous AGAAP for the 52 week period ended 26 June 2005 of $9.0 million (Company: $9.0 million) (being the $73.0 million (Company: $73 million) expense required by AIFRS less the $82.0 million (Company: $82.0 million) expense determined using previous AGAAP). At 26 June 2005 the defined benefit liability is $32.0 million (Company: $32.0 million).

Annual leave

Under previous AGAAP, annual leave was recognised at the amounts expected to be paid to settle the obligation including associated on-costs. Under AIFRS, where this amount is not expected to be settled within one year it has been discounted to its present value using the Commonwealth Government bond rate approximating the expected settlement of the obligation. At transition the annual leave provision was reduced by $2.3 million (Company: $2.3 million). As at 26 June 2005, the value of the discount to the annual leave provision had increased by $0.2 million (Company: $0.2 million).

I Share-based payments

Equity-based remuneration (including options)

Under AIFRS, equity settled share-based payments form part of the remuneration of employees (including executives). Under AGAAP the Company did not recognise an expense for any share-based remuneration, including equity settled share-based payments such as options. The accounting policies relating to the recognition of share-based payments under AIFRS are set out in Note 1Q.

As permitted by the elections available under AASB 1, Woolworths did not retrospectively recognise the fair value of share-based payments that have vested prior to 1 January 2005. Furthermore, no adjustment was made for share-based payments granted before 7 November 2002.

On transition to AIFRS, retained earnings of the consolidated entity decreased and reserves increased by $5.1 million (Company: $5.1 million). For the 52 weeks ended 26 June 2005, employee benefits expense and reserves increased by $10.2 million (Company: $10.2 million).

Employee Share Plan (ESP)

The Group operates an Employee Share Plan (ESP) whereby it provides interest-free loans to selected employees to purchase shares in the Company. All shares acquired under the ESP are held by a wholly-owned subsidiary of Woolworths as trustee of the share plan trust. Dividends paid by Woolworths are used to repay the employee loans (after payment of a portion of the dividend to the employee to cover any tax liabilities). The loans are limited recourse and if the employee elects not to repay the loan, the underlying shares are sold to recover the outstanding loan balance.

Certain employee receivables (loans) in respect of the Woolworths ESP were sold in 2002 to a financial institution. Under AIFRS a liability equal to that part of these receivable balances not yet repaid by the employee will be recognised as a liability as the financial institution has recourse to the Company until the share plan vesting conditions have been satisfied. At transition, this has resulted in an increase in liabilities in the consolidated entity of $19.2 million (Company: $19.2 million) with $5.1 million (Company: $5.1 million) being disclosed as a current liability and $14.1 million (Company: $14.1 million) as non-current. At 26 June 2005, this gave rise to an increase in liabilities in the consolidated entity of $14.3 million (Company: $14.3 million) with $4.3 million (Company: $4.3 million) being disclosed as a current liability and the balance of $10.0 million (Company: $10.0 million) being disclosed as a non-current liability.

Under AIFRS, the ESP entitlements and associated limited recourse loans to the employees are considered to be an option until the employee repays the loan. The options are accounted for as set out above and the fair value adjustments are included in the equity-based remuneration adjustment above. Further, under AIFRS, the consolidated entity and the Company are considered able to control the shares held in trust until the loan is repaid. Accordingly, at transition, the underlying shares and loan to the employee are eliminated on consolidation of the share trust reducing the consolidated entity's net assets and net equity by $108.9 million (Company: $108.9 million). The equity component comprises $120.6 million (Company: $120.6 million) being the initial share issue price less $11.7 million (Company: $11.7 million) of dividends on shares held in trust applied to reduce the related loan value. Any shares forfeited are sold on market and the proceeds of this sale are contributed to the Woolworths Group Superannuation Plan.

For the 52 week period ended 26 June 2005, the consolidation resulted in receivables and net equity decreasing by $87.3 million (Company: $87.3 million) including a $3.1 million (Company: $3.1 million) increase in share capital relating to incremental proceeds from the sale of forfeited shares on-market, and cash has increased by $1.5 million (Company: $1.5 million).

J Inventory

Woolworths receives settlement discounts from suppliers for early payment of amounts due. Under AGAAP these amounts were recognised as revenue when earned. Under AIFRS, settlement discounts and rebates received from vendors are recognised as a reduction of cost of sales (or inventory) rather than as revenue. This has resulted in a reduction in inventory and retained earnings of the consolidated entity on transition to AIFRS of approximately $8.0 million (Company: $8.0 million) relating to the reduction in the cost of stock-on-hand at period end as a result of including settlement discounts in the valuation of inventory. The adjustment relating to the 52 weeks ended 26 June 2005 is a decrease in inventory and a corresponding increase in cost of sales of $0.3 million (Company: $0.3 million).

Settlement discounts, rebates and other purchase allowances totalling $472.2 million (Company: $396.2 million), previously recognised in other operating revenue have been reclassified to cost of sales for the 52 week period ended 26 June 2005.

K Make good provisions

The consolidated entity has certain operating leases that require the asset to be returned to the lessor in its original condition. These obligations relate to wear and tear on the premises and not dismantling obligations. The operating lease payments do not include an element for repairs/overhauls. Under AGAAP, the costs of refurbishment are not recognised until it is probable that the expenditure will be incurred, whereas under AIFRS a provision for refurbishment costs must be recognised over the period of the lease, measured at the expected cost of refurbishment at each reporting date. At the date of transition, an amount of $6.4 million (Company: $6.4 million) was recognised as a liability of the consolidated entity with a corresponding decrease in retained earnings. This provision has not been utilised during the 52 weeks ended 26 June 2005. The adjustment relating to the 52 weeks ended 26 June 2005 is an increase in the provision of $0.5 million (Company: $0.5 million).

31 EXPLANATION OF TRANSITION TO AIFRS (CONTINUED)

L Revenue – fuel discount vouchers

Woolworths issues fuel discount vouchers (on shopper dockets) to supermarket and BIG W customers in recognition of their loyalty. Under AGAAP, the full amount of the supermarket and BIG W sales were recognised as revenue with no provision raised for ongoing obligations associated with discount vouchers. This treatment recognised that substantially all of the transaction had been completed and the incremental cost of honoring discount vouchers was not material.

Under AASB 118 revenue components of multi-element transactions must be treated separately at fair value, where there are ongoing performance or delivery obligations. Accordingly, under AIFRS a proportion of revenue recognised on supermarket and BIG W sales is deferred, reflecting the ongoing obligation associated with unredeemed fuel vouchers. The provision arising is released in a pattern reflecting the historical redemption of fuel discount vouchers.

At the date of transition, an amount of $3.3 million (Company: $3.3 million) was recognised as a liability of the consolidated entity and the Company with a corresponding decrease in retained earnings. The adjustment relating to the 52 weeks ended 26 June 2005 is an increase in the provision of $0.5 million (Company: $0.5 million).

M Taxation

The AIFRS transition adjustments set out elsewhere in this note resulted in a net increase to the deferred tax asset of $47.1 million (Company: $46.1 million), recognised against retained earnings. In addition, deferred tax balances are now shown on a net basis to the extent that they are payable to or receivable from the same taxation authority. Accordingly, deferred tax liabilities of $4.5 million (Company: $3.6 million) were reclassified to the net deferred tax asset at transition.

For the 52 week period ended 26 June 2005, the net increase in deferred tax assets was $22.6 million (Company: $5.7 million) and comprised:

- $47.1 million (Company: $46.1 million) increase as a result of the transition to AIFRS recognised against retained earnings;
- $1.1 million (Company: $1.8 million) decrease for the tax effect of AIFRS adjustments for the 52 week period ended 26 June 2005 increasing income tax expense;
- $3.0 million (Company: $3.0 million) increase for the tax effect of items recognised directly in retained earnings for the 52 week period ended 26 June 2005;
- $14.0 million (Company: $nil) decrease for the tax effect of the revaluation of MGW licences on the change from equity accounting to consolidation, recognised $7.0 million (Company: $nil) in asset revaluation reserve and $7.0 million (Company: $nil) in outside equity interests;
- $12.4 million (Company: $12.8 million) decrease for the reclassification of deferred tax liabilities to net deferred tax assets; and
- $28.8 million decrease in deferred tax assets of the Company arising from the application of UIG Interpretation 1052 Tax Consolidation Accounting, described in the following section.

Tax consolidation

The consolidated entity had applied UIG Abstract 52 Income Tax Accounting Under the Tax Consolidation System for tax consolidation purposes under AGAAP, resulting in the Company as the head entity of the tax consolidated group recognising both current and deferred tax in relation to the wholly-owned subsidiaries in the tax consolidated group. Under AIFRS, the consolidated entity has adopted UIG Interpretation 1052 which requires the subsidiaries to initially recognise both current and deferred taxes before recognising the head entity's assumption of the current tax liability or asset and deferred tax asset from tax losses. The entities in the Australian tax consolidated group have revised the tax funding arrangement to address only current tax amounts and deferred tax assets from tax losses so that no contributions or distributions to equity participants are expected to arise in the future. There is no impact from implementation of UIG Interpretation 1052 on the consolidated entity as at transition or for the 52 week period ended 26 June 2005 as upon consolidation the inter-company balances are eliminated.

For the Company, the application of UIG Interpretation 1052 resulted in a reduction of the deferred tax asset balance by $28.8 million at the date of transition with a corresponding increase in intercompany receivables.

Tax expense of the Company decreased by $22.9 million at the date of transition, which is recognised in retained earnings, with a corresponding increase in intercompany receivables. For the 52 week period ended 26 June 2005, tax expense of the Company decreased by $34.7 million with a corresponding increase in intercompany receivables.

N Debt establishment costs

Capitalised establishment costs were previously disclosed as other assets. Under AIFRS, such costs are included in interest bearing liabilities. An amount of $3.6 million (Company: $3.6 million) was reclassified from assets to liabilities at 26 June 2005.

O Outside equity interest

Adjustments made under AIFRS have been allocated to outside equity interest to the extent that these adjustments are in respect of the ALH Group. The allocation of the impact of these adjustments is based on the 25% outside equity interest share.

Statement of cash flows

The above adjustments had no impact on the statement of cash flows for the 52 week period ended 26 June 2005, other than for some reclassifications.

	Notes	Consolidated Transition 28 June 04 $m	Consolidated 26 June 05 $m	Woolworths Limited Transition 28 June 04 $m	Woolworths Limited 26 June 05 $m

Retained earnings

The effect of the above adjustments on retained earnings is as follows:

	Notes	Consolidated Transition 28 June 04 $m	Consolidated 26 June 05 $m	Woolworths Limited Transition 28 June 04 $m	Woolworths Limited 26 June 05 $m
Property, plant and equipment – non-capitalisable items	B	(18.9)	–	(16.8)	–
Property, plant and equipment – depreciation saving on write-back to cost	B	10.3	–	–	–
Capital profit reserve transfer	A	66.2	–	2.6	–
General reserve transfer	A	46.9	–	45.5	–
Foreign currency translation reserve transfer	G	(0.4)	–	–	–
Asset revaluation reserve transfer	B	8.6	–	0.6	–
Defined benefit plan	H	(31.0)	(10.0)	(31.0)	(10.0)
Rent straight-line adjustment	C	(53.3)	–	(50.9)	–
Fuel discount vouchers	L	(3.3)	–	(3.3)	–
Equity-based remuneration	I	(5.1)	–	(5.1)	–
Annual leave discounting	H	2.3	–	2.3	–
Make good provision	K	(6.4)	–	(6.4)	–
Inventory	J	(8.0)	–	(8.0)	–
Consolidation of Employee Share Plan	I	11.7	0.4	11.7	0.4
Deferred tax	M	47.1	3.0	46.1	3.0
Tax consolidation		–	–	22.9	–
Total adjustment to retained earnings		66.7	(6.6)	10.2	(6.6)
Attributable to:					
Equity holders of the parent		66.7	(6.6)	10.2	(6.6)
Outside equity interest		–	–	–	–
		66.7	(6.6)	10.2	(6.6)
Retained earnings (AGAAP)		704.3	978.0	506.0	645.6
Transition retained earnings adjustment		66.7	66.7	10.2	10.2
AIFRS current period retained earnings adjustment		–	(6.6)	–	(6.6)
AIFRS profit after tax amendments		–	25.7	–	50.9
Closing retained earnings (AIFRS)		771.0	1,063.8	516.2	700.1

The reconciliation above should be read in conjunction with the notes as set out on pages 146 to 150.

31 EXPLANATION OF TRANSITION TO AIFRS (CONTINUED)

2005 balance sheets

The effect of the above adjustments on the balance sheets of the consolidated entity and the Company as at 26 June 2005 are as follows:

	Notes	Consolidated As at 26 June 2005 Previous GAAP $m	Consolidated Effect of transition to AIFRS $m	Consolidated AIFRS $m	Woolworths Limited As at 26 June 2005 Previous GAAP $m	Woolworths Limited Effect of transition to AIFRS $m	Woolworths Limited AIFRS $m
Assets							
Cash	I	432.3	1.5	433.8	311.7	1.5	313.2
Trade and other receivables	A	490.0	105.6	595.6	194.7	92.5	287.2
Inventories	J	1,977.3	(7.7)	1,969.6	1,526.7	(7.7)	1,519.0
Assets held for sale	A	28.2	37.2	65.4	0.2	–	0.2
Other	A	109.2	(109.2)	–	96.1	(96.1)	–
Total current assets		3,037.0	27.4	3,064.4	2,129.4	(9.8)	2,119.6
Trade and other receivables	A,I	79.8	(63.6)	16.2	3,011.4	474.4	3,485.8
Other financial assets		1.1	–	1.1	152.3	–	152.3
Property, plant and equipment	A,B	3,552.6	(193.3)	3,359.3	1,945.9	(26.7)	1,919.2
Intangibles	D,E	2,011.4	35.0	2,046.4	395.2	22.5	417.7
Deferred tax assets	M	265.1	22.6	287.7	238.4	5.7	244.1
Other	A	10.9	(10.9)	–	10.9	(10.9)	–
Total non-current assets		5,920.9	(210.2)	5,710.7	5,754.1	465.0	6,219.1
Total assets		8,957.9	(182.8)	8,775.1	7,883.5	455.2	8,338.7
Liabilities							
Trade and other payables	A	2,335.6	580.5	2,916.1	2,080.2	912.4	2,992.6
Accruals	A	651.9	(651.9)	–	456.7	(456.7)	–
Borrowings		235.5	–	235.5	235.0	–	235.0
Current tax liabilities		105.5	–	105.5	115.9	–	115.9
Provisions	A,H,K,L	393.5	130.0	523.5	327.9	114.9	442.8
Total current liabilities		3,722.0	58.6	3,780.6	3,215.7	570.6	3,786.3
Borrowings	N	2,614.0	(3.6)	2,610.4	2,603.0	(3.6)	2,599.4
Deferred tax liabilities	M	12.4	(12.4)	–	12.8	(12.8)	–
Provisions	A,K	412.4	(122.4)	290.0	379.8	(107.3)	272.5
Other	C,H,I	–	93.9	93.9	–	86.3	86.3
Total non-current liabilities		3,038.8	(44.5)	2,994.3	2,995.6	(37.4)	2,958.2
Total liabilities		6,760.8	14.1	6,774.9	6,211.3	533.2	6,744.5
Net assets		2,197.1	(196.9)	2,000.2	1,672.2	(78.0)	1,594.2
Equity							
Issued capital	I	977.9	3.1	981.0	977.9	3.1	981.0
Shares held in trust	I	–	(102.2)	(102.2)	–	(102.2)	(102.2)
Reserves	A,B,G,I	207.9	(176.3)	31.6	48.7	(33.4)	15.3
Retained earnings		978.0	85.8	1,063.8	645.6	54.5	700.1
Equity attributable to the members of Woolworths Limited		2,163.8	(189.6)	1,974.2	1,672.2	(78.0)	1,594.2
Minority interest	O	33.3	(7.3)	26.0	–	–	–
Total equity		2,197.1	(196.9)	2,000.2	1,672.2	(78.0)	1,594.2

The reconciliation above should be read in conjunction with the notes as set out on pages 146 to 150.

Reconciliation of profit for financial year ended 26 June 2005

	Notes	Consolidated Previous GAAP $m	Consolidated Effect of transition to AIFRS $m	Consolidated AIFRS $m	Woolworths Limited Previous GAAP $m	Woolworths Limited Effect of transition to AIFRS $m	Woolworths Limited AIFRS $m
Revenue from the sale of goods		31,352.5	–	31,352.5	26,027.8	–	26,027.8
Other operating revenue	J	600.9	(472.2)	128.7	516.4	(396.2)	120.2
Total revenue from operations		31,953.4	(472.2)	31,481.2	26,544.2	(396.2)	26,148.0
Cost of sales	A,J,L	(24,150.8)	471.9	(23,678.9)	(20,100.2)	396.0	(19,704.2)
Gross profit		7,802.6	(0.3)	7,802.3	6,444.0	(0.2)	6,443.8
Other revenue	A	365.4	270.2	95.2	63.0	12.3	75.3
Other income	A	–	10.2	10.2	–	4.9	4.9
Share of profit in associated company		2.5	–	2.5	–	–	–
Branch expenses	A,C,E	(5,361.5)	331.6	(5,029.9)	(4,142.2)	32.5	(4,109.7)
Administration expenses	A,B,C,H,I,K	(1,526.0)	(52.2)	(1,578.2)	(1,296.6)	(33.9)	(1,330.5)
Earnings before interest and tax		1,283.0	19.1	1,302.1	1,068.2	15.6	1,083.8
Financial expense		(164.1)	–	(164.1)	(122.6)	–	(122.6)
Financial income	A	10.4	3.6	14.0	32.1	2.4	34.5
Net financing cost		(153.7)	3.6	(150.1)	(90.5)	2.4	(88.1)
Net profit before income tax expense		1,129.3	22.7	1,152.0	977.7	18.0	995.7
Income tax expense	M	(337.7)	2.9	(334.8)	(321.3)	32.9	(288.4)
Profit after income tax expense		791.6	25.6	817.2	656.4	50.9	707.3
Net profit attributable to:							
Equity holders of the parent entity		790.5	25.7	816.2	656.4	50.9	707.3
Minority interest		1.1	(0.1)	1.0	–	–	–
Profit for the period		791.6	25.6	817.2	656.4	50.9	707.3
Basic EPS (cents per share)		75.74		79.19			
Diluted EPS (cents per share)		75.35		78.94			

The reconciliation above should be read in conjunction with the notes as set out on pages 146 to 150.

31 EXPLANATION OF TRANSITION TO AIFRS (CONTINUED)

2004 transition balance sheets

The effect of the above adjustments on the balance sheets of the consolidated entity and the Company on transition to AIFRS, being 28 June 2004, are as follows:

		Consolidated As at 28 June 2004			Woolworths Limited As at 28 June 2004		
	Notes	Previous GAAP $m	Effect of transition to AIFRS $m	AIFRS $m	Previous GAAP $m	Effect of transition to AIFRS $m	AIFRS $m
Assets							
Cash		348.9	–	348.9	314.9	–	314.9
Trade and other receivables	A	208.6	112.3	320.9	169.7	100.4	270.1
Inventories	J	1,847.0	(8.0)	1,839.0	1,472.3	(8.0)	1,464.3
Assets held for sale		259.6	–	259.6	26.2	–	26.2
Other	A	112.3	(112.3)	–	100.4	(100.4)	–
Total current assets		2,776.4	(8.0)	2,768.4	2,083.5	(8.0)	2,075.5
Trade and other receivables	A,I	96.4	(84.0)	12.4	1,049.8	404.5	1,454.3
Investments using the equity method	A	3.6	(3.6)	–	–	–	–
Other financial assets	A	28.0	3.6	31.6	106.0	–	106.0
Property, plant and equipment	A,B	2,467.6	(130.8)	2,336.8	1,609.6	(16.8)	1,592.8
Intangibles		572.3	–	572.3	392.1	–	392.1
Deferred tax assets	M	195.4	42.6	238.0	195.9	13.7	209.6
Other	A	5.7	(5.7)	–	5.7	(5.7)	–
Total non-current assets		3,369.0	(177.9)	3,191.1	3,359.1	395.7	3,954.8
Total assets		6,145.4	(185.9)	5,959.5	5,442.6	387.7	5,830.3
Liabilities							
Trade and other payables	A,I	2,176.3	500.7	2,677.0	1,994.4	884.6	2,879.0
Accruals	A	554.5	(554.5)	–	442.7	(442.7)	–
Borrowings		18.0	–	18.0	17.0	–	17.0
Current tax liabilities		132.2	–	132.2	133.0	–	133.0
Provisions	A,H,K,L	348.0	125.6	473.6	316.7	109.6	426.3
Total current liabilities		3,229.0	71.8	3,300.8	2,903.8	551.5	3,455.3
Borrowings		494.8	–	494.8	483.3	–	483.3
Deferred tax liabilities	M	4.5	(4.5)	–	3.6	(3.6)	–
Provisions	A,K	364.6	(118.2)	246.4	338.8	(102.2)	236.6
Other	C,H,I	–	98.4	98.4	–	96.0	96.0
Total non-current liabilities		863.9	(24.3)	839.6	825.7	(9.8)	815.9
Total liabilities		4,092.9	47.5	4,140.4	3,729.5	541.7	4,271.2
Net assets		2,052.5	(233.4)	1,819.1	1,713.1	(154.0)	1,559.1
Equity							
Issued capital		575.4	–	575.4	575.4	–	575.4
Shares held in trust	I	–	(120.6)	(120.6)	–	(120.6)	(120.6)
Reserves	A,B,G,I	184.6	(179.5)	5.1	48.7	(43.6)	5.1
Retained earnings		704.3	66.7	771.0	506.0	10.2	516.2
Equity attributable to the members of Woolworths Limited		1,464.3	(233.4)	1,230.9	1,130.1	(154.0)	976.1
Woolworths Income Notes		583.0	–	583.0	583.0	–	583.0
Minority interest		5.2	–	5.2	–	–	–
Total equity		2,052.5	(233.4)	1,819.1	1,713.1	(154.0)	1,559.1

The reconciliation above should be read in conjunction with the notes as set out on pages 146 to 150.

Financial instruments

Change in accounting policy

In the current financial year the consolidated entity adopted for the first time AASB 132 Financial Instruments: Disclosure and Presentation (AASB 132) and AASB 139 Financial Instruments: Recognition and Measurement (AASB 139). This change in accounting policy resulted from the election made in accordance with the transition rules contained in AASB 1, which does not require the restatement of comparative information for financial instruments within the scope of AASB 132 and AASB 139.

The adoption of AASB 139 has resulted in the consolidated entity recognising all derivative financial instruments as assets or liabilities at fair value. This change has been accounted for by adjusting the opening balance of equity (retained earnings and hedging reserve) at 27 June 2005.

The impact on the balance sheet as at 27 June 2005 is set out below. The notes below describe the major components of these impacts. The transitional provisions will not have any effect in future reporting periods.

Application of AASB 132 and AASB 139 prospectively from 27 June 2005 for the consolidated entity and the Company:

	Notes	*Closing balance 26 June 2005 Dr/(Cr) $m*	*Impact of change in accounting policy Dr/(Cr) $m*	*AIFRS opening balance 27 June 2005 Dr/(Cr) $m*
Foreign exchange derivative liability	1	–	(0.4)	(0.4)
Hedge asset:				
Cross-currency swaps	3	–	34.0	34.0
Deferred tax asset (net)	4	287.7	3.3	291.0
Borrowings	3	(2,845.9)	(14.6)	(2,860.5)
Hedge liability:				
Interest rate swaps	2	–	(29.2)	(29.2)
Hedging reserve	1,2,3	–	6.9	6.9
Retained earnings	1,2,3	(1,063.8)	–	(1,063.8)
Total		(3,622.0)	–	(3,622.0)

31 EXPLANATION OF TRANSITION TO AIFRS (CONTINUED)

(1) Foreign exchange contracts
Under AIFRS, foreign exchange derivatives are required to be recognised at fair value on the balance sheet. Fair value represents the difference between the contracted forward rate and the period end forward rate and represents an unrealised discounted (at applicable current interest rates) gain or loss on the contract at a point in time. At 27 June 2005, the fair value of the forward foreign exchange contracts represented an unrealised loss of $0.4 million (Company: $0.4 million) resulting in the recognition of foreign exchange derivatives liability of $0.4 million (Company: $0.4 million) and debit to the hedging reserve in equity of $0.4 million (Company: $0.4 million).

(2) Interest rate swaps – cash flow hedges
Under AIFRS, the interest rate swaps used to hedge the consolidated entity's interest bearing liability exposure are required to be recognised at fair value on the balance sheet. Fair value represents the present value (discounted at applicable current interest rates) at reporting date of the net future interest coupons associated with the swap. At 27 June 2005, the fair value of interest rate swaps totalled $29.2 million (Company: $29.2 million) resulting in the recognition of a hedge liability (non-current) of $29.2 million (Company: $29.2 million) with an equal amount debited to the hedge reserve in equity.

(3) Cross-currency swaps and foreign denominated debt
The consolidated entity has entered into cross-currency swaps related to its USD denominated loans. Under AIFRS the swaps are recognised at fair value on the balance sheet. Fair value of a cross-currency swap represents the aggregate of the present value (discounted at applicable current interest rates) at reporting date of the future interest rate coupons under the swap and the difference between the contracted forward exchange rate in the swap and the period end forward exchange rate. At 27 June 2005, these swaps had a fair value of $34 million (Company: $34 million) and accordingly a hedge asset (non-current) was recognised.

Simultaneously, under AIFRS, the foreign denominated debt has also been restated to period end exchange rates resulting in net increase to the debt of $14.6 million (Company: $14.6 million).

A hedge asset of $34 million (Company: $34 million) is recognised with a corresponding increase to interest-bearing liabilities of $14.6 million (Company: $14.6 million) and $19.4 million (Company: $19.4 million) in a hedging reserve.

(4) Tax effect
The tax effect of the above adjustments was to increase the net deferred tax asset at 26 June 2005 by $3.3 million (Company: $3.3 million) recognised as $0.5 million (Company: $0.5 million) to retained earnings and $2.8 million (Company: $2.8 million) to the hedging reserve.

DIRECTORS' DECLARATION

The Directors declare that:

(a) in the Directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable;

(b) in the Directors' opinion, the attached Financial Statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the consolidated entity; and

(c) the Directors have been given the declarations required by s.295A of the Corporations Act 2001.

At the date of this declaration, the Company is within the class of companies affected by ASIC Class Order 98/1418. The nature of the Deed of Cross Guarantee is such that each company which is party to the Deed guarantees to each creditor payment in full of any debt in accordance with the Deed of Cross Guarantee.

In the Directors' opinion, there are reasonable grounds to believe that the Company and the companies to which the ASIC Class Order applies, as detailed in Note 28 to the Financial Statements will, as a group, be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee.

Signed in accordance with a resolution of the Directors made pursuant to s.295(5) of the Corporations Act 2001.

On behalf of the Directors

James Strong
Chairman

Roger Corbett
Group Managing Director/CEO

INDEPENDENT AUDIT REPORT TO THE MEMBERS OF WOOLWORTHS LIMITED

Deloitte.

Deloitte Touche Tohmatsu
A.B.N. 74 490 121 060

Grosvenor Place
225 George Street
Sydney NSW 2000
PO Box N250 Grosvenor Place
Sydney NSW 1220 Australia

DX 10307SSE
Tel: +61 (0) 2 9322 7000
Fax: +61 (0) 2 9322 7001
www.deloitte.com.au

Scope

The financial report, compensation disclosures and directors' responsibility

The financial report comprises the balance sheets, income statements, statement of cash flows, statements of recognised income and expense, a summary of significant accounting policies and other explanatory notes and the directors' declaration for both Woolworths Limited (the company) and the consolidated entity, for the financial year ended 25 June 2006 as set out on pages 75 to 157. The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

As permitted by the *Corporations Regulations 2001*, the company has disclosed information about the compensation of key management personnel ("compensation disclosures") as required by paragraphs Aus 25.4 to Aus 25.7.2 of Accounting Standard AASB 124 *Related Party Disclosures* ("AASB 124"), under the heading "remuneration report" set out in Section 3 "Executive Remuneration including Executive Directors" and Section 4 "Non-executive Directors' Remuneration" (except for Sub-Section 4.6 "Appointment Letters, Deeds of Access, Insurance and Indemnity, Disclosure Deeds") of the directors' report, and not in the financial report. These compensation disclosures are identified in the directors' report as being subject to audit. The remuneration report also contains information not subject to audit.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with Accounting Standards in Australia and the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate financial records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report. The directors are also responsible for the preparation and presentation of the compensation disclosures contained in the directors' report in accordance with the *Corporations Regulations 2001*.

Audit approach

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

We performed procedures to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards in Australia and the

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Member of
Deloitte Touche Tohmatsu

Corporations Act 2001 so as to present a view which is consistent with our understanding of the company's and the consolidated entity's financial positions, and performance as represented by the results of their operations, their changes in equity and their cash flows and whether the compensation disclosures comply with AASB 124.

Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report and the compensation disclosures in the directors' report, and the evaluation of accounting policies and significant accounting estimates made by the directors.

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

The audit opinion expressed in this report has been formed on the above basis.

Audit opinion

In our opinion:

(1) the financial report of Woolworths Limited is in accordance with the *Corporations Act 2001*, including:

- (i) giving a true and fair view of the company's and consolidated entity's financial positions as at 25 June 2006 and of their performance for the year ended on that date; and
- (ii) complying with Accounting Standards in Australia and the *Corporations Regulations 2001*; and

(2) the compensation disclosures that are contained in Section 3 "Executive Remuneration including Executive Directors" and Section 4 "Non-executive Directors' Remuneration" (except for Sub-Section 4.6 "Appointment Letters, Deeds of Access, Insurance and Indemnity, Disclosure Deeds") under the heading "Remuneration Report" of the directors' report comply with paragraphs Aus 25.4 to Aus 25.7.2 of Accounting Standard AASB 124 *Related Party Disclosures*.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Rod Smith
Partner
Chartered Accountants
Sydney, 22 September 2006

SHAREHOLDER INFORMATION

The shareholder information set out below was applicable as at 19 September 2006.

Number of shareholders

There were 336,400 shareholders, holding 1,184,676,787 fully paid ordinary shares.

Distribution of equity securities

(a) Analysis of numbers of shareholders by size of holding:

*Range of fully paid ordinary (FPO) shares/options**	*Number of FPO holders*	*Number of FPO shares*	*Number of Option holders*
1 – 1,000	190,201	75,846,227	–
1,001 – 5,000	128,221	251,278,410	274
5,001 – 10,000	12,119	86,062,250	353
10,001 – 100,000	5,648	114,881,341	929
100,001 – and over	211	656,608,559	23
Total	**336,400**	**1,184,676,787**	**1,579**

(b) There were 8,028 holders of less than a marketable parcel of ordinary shares.

20 largest shareholders

The names of the 20 largest holders of shares are listed below:

	Name	*Number of fully paid ordinary shares*	*Percentage of issued capital%*
1	JP Morgan Nominees Australia Limited	161,188,530	13.61
2	National Nominees Limited	126,255,480	10.66
3	Westpac Custodian Nominees Limited	112,208,364	9.47
4	Citicorp Nominees Pty Limited	31,690,577	2.68
5	Queensland Investment Corporation	29,127,216	2.46
6	ANZ Nominees Limited (cash income account)	17,841,662	1.51
7	Cogent Nominees Pty Limited	15,694,439	1.32
8	ANZ Nominees Limited (income reinvest plan)	13,209,015	1.11
9	AMP Life Limited	11,837,709	1.00
10	HSBC Custody Nominees (Australia) Limited	11,697,463	0.99
11	Woolworths Custodian Pty Ltd	9,649,968	0.81
12	Australian Foundation Investment Company Limited	6,203,729	0.52
13	Perpetual Trustee Company Limited	4,759,761	0.40
14	Citicorp Nominees Pty Limited	4,670,078	0.39
15	Australian Nominees Pty Limited	4,434,714	0.37
16	Cogent Nominees Pty Limited	3,710,093	0.31
17	IAG Nominees Pty Limited	3,568,988	0.30
18	Australian Nominees Pty Limited	3,255,104	0.27
19	Citicorp Nominees Pty Limited	3,243,540	0.27
20	Argo Investments Limited	3,141,723	0.27

Substantial shareholders

As at 19 September 2006 there were no substantial shareholders in the Company that had provided substantial shareholding notices.

Unquoted equity securities

As at 19 September 2006 there were 27,125,027 options granted over unissued ordinary shares in the Company to employees.

Woolworths Notes

On 26 October 2005, Woolworths announced that it intended to redeem the WINs in early 2006. On 3 April 2006, the Company announced to the ASX an offer of perpetual, unsecured, subordinated, cumulative notes at $100 each (Woolworths Notes) to raise up to $600 million and lodged with the Australian Securities and Investments Commission a prospectus for the Offer. The Offer comprised an Eligible WINs Holder Offer, a Broker Firm Offer and an Institutional Offer.

On 5 June 2006, the Company redeemed all $600 million in face value of the WINs and allotted all six million Woolworths Notes. Normal settlement trading for the Woolworths Notes on ASX commenced on 9 June 2006. Woolworths Notes are quoted under the ASX code WOWHB.

Voting rights

On a show of hands, at a General Meeting of the Company, every member present in person or by proxy shall have one vote and upon a poll each person present in person or by proxy shall have one vote for each ordinary share held.

Shareholder enquiries

Enquiries and correspondence regarding shareholdings should be directed to Woolworths Limited Share Registrar: Computershare Investor Services Pty Limited by telephone on 1300 368 664, by facsimile on (02) 8235 8150 or online via the Shareholder Centre on Woolworths Limited website at www.woolworthslimited.com.au or by visiting the Computershare website at www.computershare.com.au.

Changed your address?

If you change your address, please promptly notify our Share Registrar in writing. Please quote your Shareholder Reference Number and your old address as added security. Change of address advice forms can be downloaded via the Shareholder Centre on Woolworths Limited website at www.woolworthslimited.com.au.

Employee shareholder information

For information on Woolworths Limited employee shareholdings please contact:

Woolworths Shareholder Relations
1 Woolworths Way
Bella Vista NSW 2153
Telephone: (02) 8885 1066 or (02) 8885 1068
Facsimile: (02) 8888 1066 or (02) 8888 1068

Final dividend

The final dividend of 31 cents per share will be paid on 6 October 2006 to shareholders entitled to receive dividends and registered on 8 September 2006 (Record Date).

Direct payment to shareholders' accounts

Dividends may be paid directly into bank, building society or credit union accounts in Australia. Payments are electronically credited on the dividend payment date and a dividend advice confirming deposit details can either be mailed to shareholders or is available online should holders elect.

SHAREHOLDER INFORMATION

Communications by email
More and more of our shareholders are enjoying the benefits of receiving Woolworths' communications via email. This provides fast, effective access to information you would normally receive by mail, and it helps us to reduce costs to both the environment and the Company.

Visit the Woolworths Limited website at www.woolworthslimited.com.au/shareholdercentre and click on the link provided. Alternatively, visit the Computershare website at www.computershare.com.au/au/sc.

Be sure to have your Shareholder Reference Number (SRN) or Holder Identification Number (HIN) handy. You can choose to receive the Annual Report, Notice of Meeting/Proxy Form and dividend advices by email.

Dividend Reinvestment Plan (DRP)
Eligible shareholders may elect to participate in the DRP in respect to all or part of their shareholding, subject to any maximum and/or minimum number of shares to participate in the DRP that the Directors may specify. There is currently no minimum or maximum number of shares which a shareholder (other than a broker's clearing accounts, nominees and certain trustees) may designate as participating in the DRP. Application forms are available from Woolworths Limited's Share Registrar, or can be downloaded from Woolworths Limited website.

Uncertificated share register
The share register is wholly uncertificated. Shareholder statements are issued within five business days after the end of any month in which transactions are registered in respect of your shareholding.

Woolworths communications
As well as this Annual Report, Woolworths communications for shareholders include:

- The Half Year Results Summary, which is mailed with the Interim Dividend in April.
- Our website, www.woolworthslimited.com.au, provides investors with information about Woolworths Limited, including copies of Annual Reports, Chairman's Address, Half Year Results Summary and Releases to the ASX by the Company.

Removal from the Annual Report mailing list
Shareholders who do not want to receive the Annual Report should advise Woolworths Limited's Share Registrar in writing. These shareholders will continue to receive all other shareholder information, including Notices of all Annual General Meetings.

Stock exchange listings
Woolworths Limited ordinary shares are listed on the Australian Stock Exchange.

American depository receipts
Woolworths Limited shares may be traded in sponsored American depository receipts form in the United States.

Date of dividend	*Type*	*Cents per share*	*Franking Rate*	*DRP Price*
History of dividends paid				
30/11/1993	Final	6 cents	39%	$2.95
29/04/1994	Interim	6 cents	39%	$2.89
30/11/1994	Final	6 cents	39%+33%	$2.60
28/04/1995	Interim	6 cents	33%	$2.72
17/11/1995	Final	8 cents	39%+33%	$2.90
26/04/1996	Interim	7 cents	33%	$2.87
12/11/1996	Final	8 cents	36%	$2.58
24/04/1997	Interim	7 cents	36%	$3.22
15/10/1997	Final	9 cents	36%	$3.94
24/04/1998	Interim	8 cents	36%	$5.35
9/10/1998	Final	9 cents	36%	$5.18
30/04/1999	Interim	8 cents	36%	$4.83
5/10/1999	Final	10 cents	36%	$5.19
28/04/2000	Interim	10 cents	36%	$4.92
5/10/2000	Final	13 cents	34%	$6.61
27/04/2001	Interim	12 cents	34%	$7.99
5/10/2001	Final	15 cents	30%	$10.98
30/04/2002	Interim	15 cents	30%	$12.23
8/10/2002	Final	18 cents	30%	$11.78
30/04/2003	Interim	18 cents	30%	$11.71
3/10/2003	Final	21 cents	30%	$11.37
30/04/ 2004	Interim	21 cents	30%	$11.49
8/10/2004	Final	24 cents	30%	$13.16
29/04/2005	Interim	24 cents	30%	$15.50
7/10/2005	Final	27 cents	30%	$15.77
28/04/2006	Interim	28 cents	30%	$18.26
06/10/2006	Final	31 cents	30%	$19.73

SHAREHOLDERS' CALENDAR

2006

October
6 Payment date for Final Dividend
23 Announcement of first quarter sales results

November
24 Annual General Meeting
The Parkside Auditorium
Sydney Convention and Exhibition Centre
Darling Harbour
Sydney NSW

December
15 Interest Payment on Woolworths Income Notes

2007

January/February
Announcement of second quarter sales results
Half Year Results announcement

March
15 Interest Payment on Woolworths Income Notes

April
Record date for Interim Dividend
Payment of Interim Dividend
Mailing of Summary of Half Year Results
Announcement of third quarter sales results

June
15 Interest Payment on Woolworths Income Notes

July
Announcement of fourth quarter sales results

August
Preliminary Full Year Results and Final Dividend announcement

Please note: the timing of events may be subject to change.

COMPANY DIRECTORY

WOOLWORTHS LIMITED

Principal registered office in Australia
1 Woolworths Way
Bella Vista NSW 2153
Tel: (02) 8885 0000
Web: www.woolworthslimited.com.au

BIG W
Web: www.bigw.com.au

National Supermarkets
Web: www.woolworths.com.au

Woolworths Petrol
Tel: 1300 655 055

BWS
Web: www.beerwinespirits.com.au

Woolworths Ezy Banking
Web: www.ezybanking.com.au

Dan Murphy's
789 Heidelberg Road
Alphington VIC 3078
Tel: (03) 9497 3388
Fax: (03) 9497 2782
Web: www.danmurphys.com.au

Dick Smith Electronics/Tandy
2 Davidson Street
Chullora NSW 2190
Tel: (02) 9642 9100
Fax: (02) 9642 9111
Web: www.dse.com.au

Progressive Enterprises Limited
80 Favona Road
Mangere
Auckland
New Zealand
Tel: +64 (9) 275 2788
Fax: +64 (9) 275 3074
Web: www.progressive.co.nz

ALH Group Pty Ltd
– Registered Office
1 Woolworths Way
Bella Vista NSW 2153
Tel: (02) 8885 0000
– Victorian Office
Ground Floor
16-20 Claremont Street
South Yarra VIC 3141
Tel: (03) 9829 1000
– Queensland Office
Level 1
152 Oxford Street
Bulimba QLD 4171

Company Secretary
Peter Horton

Share Registrar
Computershare Investor Services Pty Limited
Level 3
60 Carrington Street
Sydney NSW 2000
Tel: 1300 368 664
Fax: (02) 8234 5050
Web: www.computershare.com.au

Auditor
Deloitte Touche Tohmatsu
Grosvenor Place
225 George Street
Sydney NSW 2000
Web: www.deloitte.com.au

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