

FINANCIAL RESULTS

HALF-YEAR ENDED 31 DECEMBER 2014



Harvey Norman

HOLDINGS LIMITED



CONTENTS

1. Key Financial Highlights
2. Strategy
3. Global Sales Revenue
4. Franchisee Sales Revenue
5. Review of Income Statement
6. Review of Balance Sheet
7. Review of Statement of Cash Flows
8. Segment Analysis: Franchising Operations, Total Property & Company-Operated Retail
9. Outlook
10. Questions

KEY FINANCIAL HIGHLIGHTS

	HY15 Dec 14	HY14 Dec 13	Mvmt on PCP ³
EBIT (excluding property revaluations ²)	\$214.34m	\$186.86m	+14.7%
EBIT Margin % ¹	15.3%	14.2%	+110 bps
PBT (excluding property revaluations ²)	\$196.93m	\$168.25m	+17.0%
PBT (including property revaluations)	\$200.79m	\$159.64m	+25.8%
NPAT ² (excluding property revaluations ²)	\$139.13m	\$117.45m	+18.5%
NPAT ² (including property revaluations)	\$141.98m	\$111.42m	+27.4%
NPAT Margin % ¹	10.1%	8.5%	+160 bps
Net Assets	\$2.54bn	\$2.45bn	+3.8%
Net Debt to Equity %	22.18%	24.95%	
Dividend Per Share	9.0c	6.0c	+50.0%
Special Dividend Per Share	14.0c	-	
EPS	13.19c	10.36c	+27.3%

¹ EBIT & NPAT Margins are calculated on Total Revenues (= company-operated sales revenue + other revenue items)

² Dec-2014 net property revaluation increment was \$3.86m before tax (\$2.85m after tax); Dec-2013 net property revaluation decrement was \$8.61m before tax (\$6.03m after tax)

³ PCP refers to previous corresponding period

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IMPROVED PROFITABILITY

Net PBT of \$200.79m (25.8% increase on PCP)

Profit after tax and non-controlling interests of \$141.98m
(27.4% increase on PCP)

Main factors impacting net profit before tax:

- \$35.23m (+44.1%) improvement in the profitability of the franchising operations segment due to:
 - \$21.78m increase (+5.0%) in segment revenue; and
 - \$11.47m reduction (-22.4%) in tactical support provided to franchisees
- \$3.86m net property revaluation increment (\$8.61m decrement in PCP)
- \$4.80m (+22.8%) increase in profit generated by company-operated stores in New Zealand
- \$4.78m (-54.0%) reduction in trading losses incurred by company-operated stores in Ireland & Northern Ireland
- \$4.82m increase in rent received from franchisees & other third party tenants
- offset by a \$2.63m decline in profitability by company-operated stores in Asia

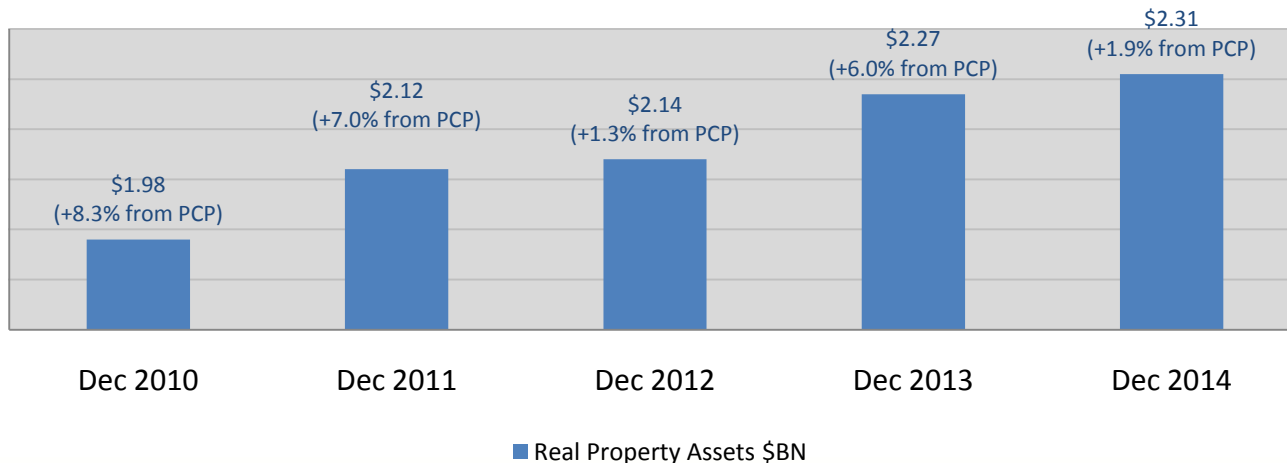


STRATEGY: INTEGRATED RETAIL, FRANCHISE, PROPERTY & DIGITAL SYSTEM

The Integrated Retail, Franchise, Property & Digital System provides the backbone for retail & franchising operations & differentiates Harvey Norman's competitive position

Financial Stability	Operational Benefits
Strong balance sheet underpinned by real assets	Agility to adapt to market trends
Financial capability to support retail operations through cycle	Control of cross-beneficial tenancy mix
Steady income stream from property	Economies of scale and cost efficiencies

**Real Property Assets (\$billion) &
Rate of Increase from PCP (%)**



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STRATEGY: OMNI CHANNEL

Omni Channel strategy provides a seamless experience across physical stores and digital interfaces, creating a leading Australian integrated retail network

- Continued investment in systems, processes and people
- Increasing use of data analytics → improved customer engagement
- Leverage store network → position as distribution centres
- Consistency in products and service across platforms



The Omni Channel Strategy, incorporating the Harvey Norman integrated retail, franchise, property and digital platforms, is robust and the most sustainable format to effectively compete in an evolving market. The digital store, physical store and distribution channels provide a significant competitive advantage for Harvey Norman franchisees.



STRATEGY: OPERATIONAL EFFICIENCIES

Continued investment in systems, technology and processes to improve profitability, create operational efficiencies and mitigate risk

Critical strategic initiatives subject to phased rollout in FY15:

1. **Merchandise, inventory and supplier management system that will enhance back-end capabilities of franchisees and company-operated stores, increase inventory turns and improve customer experience**
 - Inventory Management solution live in New Zealand stores with good adoption by users
 - Integration into Australian franchised complexes expected March 2015
 - New inventory forecasting and replenishment capabilities to be integrated in Australia and New Zealand by mid-CY2015
2. **Workforce productivity technology to enable franchisees to optimise productivity of franchisee staff. Eventually, will provide optimised rostering utilising customer traffic and sales data**
 - Integrated into 5 franchised complexes since October 2014
 - Rollout to all franchised complexes expected by November 2015
 - Optimised rostering expected by mid-CY2016



GLOBAL SALES REVENUE

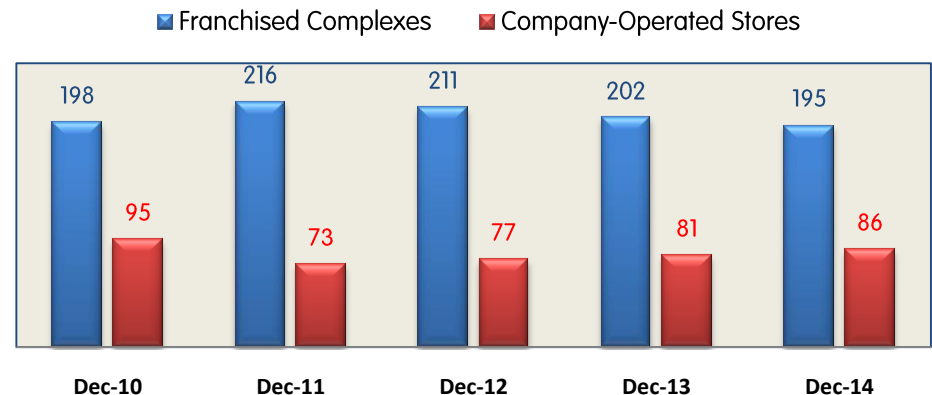
Global sales revenue of \$3.09 billion is a 3.2% increase on PCP and 3.4% increase on a like-for-like basis

	Sales Growth (%)	
	Total (%)	Like for Like (%)
	HY15 Dec-14	HY14 Dec-14
Australia \$A	+1.9%	+2.8%
New Zealand \$NZ	+6.9%	+1.9%
Slovenia / Croatia € Euro	+7.9%	+7.7%
Ireland € Euro	+7.2%	+7.2%
Nth. Ireland £ Pound	+19.0%	+19.0%
TOTAL in \$A	+3.2%	+3.4%

HY15 OPENINGS & CLOSURES

- Opening of 4 company-operated stores
NZ = 1 (Napier), Singapore = 3 (Suntec City (reopening), Sportshub & One KM)
- Closure of 3 franchised complexes during the period

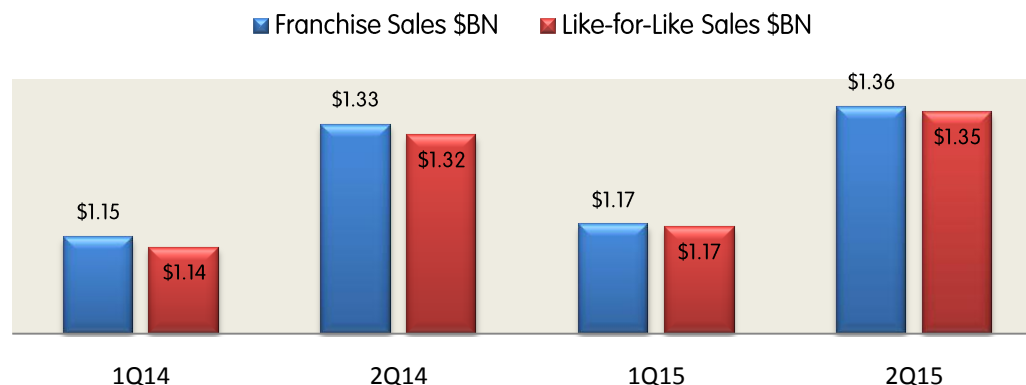
No. of Franchised Complexes & Company-Operated Stores



FRANCHISEE SALES REVENUE

Franchising Operations Segment recorded an 8th consecutive quarterly increase in like-for-like franchisee sales revenue

Franchisee Sales Revenue (\$billion)



Franchisee Like-for-Like-Sales by Quarter ¹	Q3 Mar-13	Q4 Jun-13	Q1 Sep-13	Q2 Dec-13	Q3 Mar-14	Q4 Jun-14	Q1 Sep-14	Q2 Dec-14
Like-for-like franchisee sales	\$1.08bn	\$1.17bn	\$1.14bn	\$1.32bn	\$1.11bn	\$1.18bn	\$1.17bn	\$1.35bn
Increase on PCP (%)	+1.5%	+2.6%	+2.9%	+3.6%	+3.6%	+2.0%	+2.8%	+2.8%

¹ Retail sales in Harvey Norman, Domayne and Joyce Mayne complexes in Australia are made by independently owned franchised business entities that are not consolidated with the consolidated entity's results.

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REVIEW OF THE INCOME STATEMENT

Revenue Items	HY 15 Dec 14	HY14 Dec 13	Mvmt on PCP
Sales Revenue *	\$839.33m	\$776.96m	+8.0%
Gross Profit	\$246.13m	\$222.37m	+10.7%
Revenues & Other Income	\$565.16m	\$540.62m	+4.5%

* Relates to sales revenue of company-operated stores in New Zealand, Ireland, Northern Ireland, Singapore, Malaysia, Slovenia, Croatia and other non-franchised retail businesses in Australia

Sales Revenue ↑ by \$62.36m	<ul style="list-style-type: none"> \$36.17m increase in NZ sales due to: <ul style="list-style-type: none"> new store openings at Napier (Sep-14) & stronger NZD full 6-months contribution from the stores in Hornby & Tauranga which opened in Nov-13 \$8.92m sales increase in Ireland & Northern Ireland primarily due to stronger Irish housing market and continued efforts to optimise operations and increase brand awareness \$8.03m increase in Asian sales due to new store openings at Suntec City (re-opened Aug-14), Sportshub (Aug-14) & One KM (Oct-14) and a full 6-months contribution from the Bedok Point store in Singapore & the Nu Sentral store in Malaysia that opened in the prior financial year \$3.43m increase in sales in Slovenia & Croatia due to sales growth across all key product categories
Revenues & Other Income ↑ by \$24.54m	<ul style="list-style-type: none"> \$17.35m increase in gross franchise fees received mainly due to increased franchisee sales revenue & overall profitability of the franchised stores \$4.82m increase in rent & outgoings received from franchisees & unrelated parties due to a full 6-months contribution from large complexes redeveloped in the previous financial year & CPI rent increases effective 1 July each year \$3.86m revaluation increment recognised in Dec 14 (nil in PCP) <p>Offset by:</p> <ul style="list-style-type: none"> \$1.79m decrease in interest received from franchisees, financial institutions & others due to lower overall debt \$3.05m decrease in market value appreciation of listed public securities during the period

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REVIEW OF THE INCOME STATEMENT (CONTINUED)

Expenses & Profit	HY15 Dec 14	HY14 Dec 13	Mvmt on PCP
Total Expenses	(\$617.49m)	(\$613.21m)	+0.7%
Share of JV investments	\$6.99m	\$9.86m	-29.2%
Profit Before Tax	\$200.79m	\$159.64m	+25.8%
Income Tax Expense	(\$58.68m)	(\$48.91m)	+20.0%
Non-Controlling Interests	(\$0.12m)	\$0.70m	-117.7%
Profit After Tax & NCI	\$141.98m	\$111.42m	+27.4%

Total Expenses ↑ by \$4.28m	<ul style="list-style-type: none"> \$9.69m increase in employee benefit expenses due to 4 new company-operated stores in NZ & Asia \$5.06m increase in marketing costs \$2.30m increase in distribution costs \$3.82m increase in occupancy costs excluding movement in revaluation decrement <p>Offset by:</p> <ul style="list-style-type: none"> \$11.47m reduction in tactical support provided to franchisees due to the improved sales performance of franchisees \$8.61m revaluation decrement recognised in HY14 \$1.20m reduction in finance costs attributable to lower overall debt levels during period
Higher tax charge by \$9.77m	<ul style="list-style-type: none"> ~\$12m increase in tax liability in current period due to higher HY15 profit before tax Dec-14 effective tax rate of 29.23% vs Dec-13 rate of 30.64%



REVIEW OF THE BALANCE SHEET

Harvey Norman has more than doubled its net asset base over the last ten years

	Dec 10	Dec 11	Dec 12	Dec 13	Dec 14
Total Assets	\$4.03bn	\$4.20bn	\$4.24bn	\$4.39bn	\$4.36bn
Total Liabilities	\$1.84bn	\$1.94bn	\$1.93bn	\$1.94bn	\$1.82bn
Net Assets	\$2.19bn	\$2.26bn	\$2.32bn	\$2.45bn	\$2.54bn

Total Assets ↓ by
\$30.80m

- \$112.89m reduction in cash reserves due to a concerted effort to reduce bank debt resulting in a reduction of \$161.14m in total debt & the payment of dividends of \$233.71m during the period, including the payment of a special dividend of \$148.72m on 30 December 2014 (predominantly funded by the proceeds of the Renounceable Rights Offer of \$120.72m, leaving the balance of \$28.00m funded by existing cash reserves)
- \$33.57m increase in investment property assets, contributing to the overall strength of the property portfolio
- \$22.63m increase in inventories due to 4 new company-operated stores in NZ & Singapore
- \$2.31bn of real, tangible property assets at Dec-14 underpins asset base strength

Total Liabilities ↓ by
\$122.71m

- \$161.14m decrease in total interest-bearing loans & borrowings, primarily due to the repayment of the Syndicated Working Capital Facility of \$85.00m in Feb-14 and a reduction of \$100.00m in the utilised amount of the Syndicated Facility (utilised facility of \$410.00m as at Dec-14 compared to \$510.00m utilised as at Dec-13)
- offset by \$25.56m higher trade & other payables primarily due to new company-operated stores

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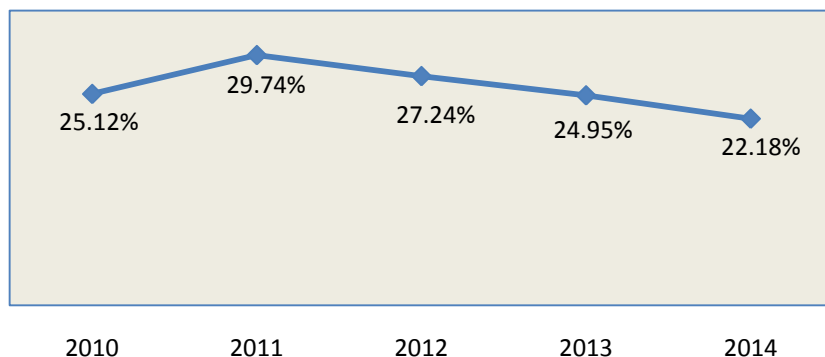
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REVIEW OF THE BALANCE SHEET: NET DEBT TO EQUITY RATIO(%)

Conservative net gearing of 22.18% positions Harvey Norman to capitalise on growth opportunities as they arise

Net Debt to Equity Ratio %



- increase in Total Equity* by \$91.63m (+3.7%)
- reduction in Net Debt by \$48.25m (-7.8%)
- improvement in Net Debt to Equity Ratio from 24.95% in Dec-13 to 22.18% in Dec-14

	Dec 10	Dec 11	Dec 12	Dec 13	Dec 14
TOTAL DEBT	\$682.77m	\$799.40m	\$835.79m	\$778.10m	\$616.96m
Less: CASH RESERVES	(\$132.92m)	(\$122.47m)	(\$201.19m)	(\$161.29m)	(\$48.40m)
NET DEBT	\$549.85m	\$676.93m	\$634.60m	\$616.81m	\$568.56m
TOTAL EQUITY*	\$2.19bn	\$2.28bn	\$2.33bn	\$2.47bn	\$2.56bn
Net Debt to Equity Ratio %	25.12%	29.74%	27.24%	24.95%	22.18%

* excluding acquisition reserve

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REVIEW OF THE STATEMENT OF CASH FLOWS

	HY15 Dec 14	HY14 Dec 13	Mvmt on PCP
Operating Cash Flows	\$136.21m	\$183.48m	-25.8%

Operating cash flows ↓ by \$47.26m

Reduction attributable to:

- \$38.93m reduction in net receipts from franchisees due primarily to an increase in movement in working capital advances to franchisees of \$66.00m offset by higher revenue net of tactical support of \$26.44m. Higher advances were made to franchisees during HY15 to ramp-up stock holdings (including higher value stock items) to support the increased consumer demand and higher franchisee sales in the months of December 2014 and January 2015.
- \$56.13m increase in payments to suppliers and employees, mainly due to an increase in purchase of inventories of \$32.86m for company-operated stores (partly attributable to new-store openings in NZ and Singapore) and an increase in operating expenditures of \$26.53m.
- \$15.93m increase in income tax paid due to higher profits generated in HY15

Offset by:

- \$64.52m increase in receipts from customers due to higher sales particularly from NZ, Singapore and Ireland. NZ increased by \$36.17m due to new store opening in Napier as well as a full 6-months contribution from the stores at Hornby and Tauranga that opened in HY14. Singapore increased by \$8.03m due to opening of Sportshub and One KM stores as well as full 6 months trading of Bedok Point and Nu Sentral stores that opened in FY14. The increase in Ireland was due to improved consumer sentiment in the Irish market.



REVIEW OF THE STATEMENT OF CASH FLOWS (CONTINUED)

	HY15 Dec 14	HY14 Dec 13	Mvmt on PCP
Investing Cash Flows	(\$30.89m)	(\$72.49m)	+57.4%
Financing Cash Flows	(\$197.16m)	(\$101.69m)	-93.9%
Net (Decrease) / Increase in Cash Flows	(\$91.83m)	\$9.29m	-1088.1%
Cash & Cash Equivalents At Beginning of the Period	\$115.17m	\$124.57m	
Cash & Cash Equivalents At End of the Period	\$23.34m	\$133.86m	-82.6%

Investing cash outflows ↓ by \$41.61m	<ul style="list-style-type: none"> \$22.64m decrease in payments for purchases of investment properties \$5.71m decrease in payments for purchases of property, plant and equipment \$4.67m decrease in payments for purchase of intangible computer assets (in HY14 SAP system was acquired in Singapore for a price of \$4.59m) \$10.52m in proceeds from insurance claims settled in cash during HY15
Financing cash outflows ↑ by \$95.47m	<ul style="list-style-type: none"> \$185.91m increase in dividends paid as HY15 included the payment of a special dividend of 14.0 cents per share, pursuant to the Renounceable Rights Offer, totalling \$148.72 million which was paid on 30 December 2014 \$62.0m increase in repayments of external debt facilities, including repayment of debt under the Syndicated Facility Agreement & Syndicated Working Capital Facility <p>Offset by:</p> <ul style="list-style-type: none"> cash inflows of \$120.72m from the proceeds from ordinary shares issued in HNHL, received on 22 December 2014 pursuant to the Renounceable Rights Offer decrease in cash outflows from the purchase of shares in a controlled entity as HY14 had included a payment of \$23.50m for the acquisition of Pertama Holdings shares \$8.23m increase in loans from related parties and other borrowings

SEGMENT ANALYSIS: FRANCHISING OPERATIONS SEGMENT

Franchising Operations	HY15 Dec 14	HY14 Dec 13	Mvmt on PCP
Segment Revenue	\$454.64m	\$432.85m	+5.0%
Segment Result Before Tax	\$115.09m	\$79.86m	+44.1%
Franchising Operations Margin %	4.55%	3.22%	+133bps

FO segment revenue ↑ by \$21.78m	<p>Increases in FO segment revenues due to:</p> <ul style="list-style-type: none"> \$17.35m higher gross franchise fee due to increased sales & overall profitability of the franchised stores relative to PCP <p>Offset by:</p> <ul style="list-style-type: none"> \$1.79m decrease in interest received from franchisees.
FO segment result before tax ↑ by \$35.23m	<p>In addition to the increase in FO segment revenue (as above):</p> <ul style="list-style-type: none"> \$11.47m (-22.4%) decrease in tactical support provided to franchisees primarily due to the improved sales performance of Australian franchisees \$2.66m reduction in depreciation expenses due to franchised complex closures and lower plant & equipment assets of Franchisor entities \$1.09m reduction in interest paid to financial institutions due to lower debt levels



SEGMENT ANALYSIS: TOTAL PROPERTY SEGMENTS

Total Property	HY15 Dec 14	HY14 Dec 13	Mvmt on PCP
Segment Revenue	\$119.24m	\$111.34m	+7.1%
Net Property Revaluation Increment / (Decrement)	\$3.86m	(\$8.61m)	+144.9%
Segment EBITDA	\$80.45m	\$75.45m	+6.6%
Segment Result Before Tax	\$66.05m	\$61.65m	+7.1%

Property segment revenue ↑ by \$7.90m	<ul style="list-style-type: none"> net property revaluation increment of \$3.86m in HY15 compared to net decrement in HY14 \$4.36m increase in rent & outgoings received by owned properties in Australia \$0.20m increase in rent & outgoings received from owned properties in New Zealand
Property segment result before tax ↑ by \$4.41m	<ul style="list-style-type: none"> \$7.90m increase in property segment revenue including net property revaluation increment (as above) Offset by: <ul style="list-style-type: none"> \$4.00m reduction in share of profits from property-related joint venture entities mainly due to a decrease in the contribution from mining camp joint ventures by \$4.37m \$0.16m increase in interest expense \$0.35m increase in depreciation expense \$0.08m increase in amortisation and impairment expense



SEGMENT ANALYSIS: COMPANY-OPERATED RETAIL OPERATIONS

Total Retail Operations	HY15 Dec 14	HY14 Dec 13	Mvmt on PCP
Segment Revenue	\$842.87m	\$779.59m	+8.1%
Segment EBITDA	\$33.06m	\$26.47m	+24.9%
Segment Result Before Tax	\$20.14m	\$12.89m	+56.2%

Retail Ops segment revenue ↑ by \$63.28m

Increase due to:

- \$37.04m increase in NZ revenue due to the strong market-leader position in the NZ market, in addition to the new store at Napier and a full 6-months contribution from the Hornby & Tauranga stores that opened in Nov-13.
- \$7.85m increase in Ireland & Northern Ireland sales revenue due to an improvement in consumer sentiment in the Irish markets
- \$7.63m increase in Asia revenue due to store openings at Suntec City (reopened Aug-14), Sportshub (Aug-14) and One KM (Oct-14) stores in Singapore and a full 6-months contribution from stores that opened in the previous year
- \$4.18m increase in Slovenia & Croatia
- \$6.58m increase in revenue from non-franchised retail controlled entities

Retail Ops segment result before tax ↑ by \$7.24m

Increase due to:

- increased profitability of company-operated stores in New Zealand (up \$4.80m), Ireland and Northern Ireland (up \$4.78m) and Slovenia and Croatia (up \$0.83m), largely driven by improved sales performance on prior period.
- Offset by:
- \$2.63m deterioration in trading result of company-operated stores in Asia, despite new store openings, attributable to the cautious consumer sentiment in Singapore
 - \$0.53m reduction in the other non-franchised retail segment result relative to PCP

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OUTLOOK

- Strong trading performance in January 2015:
 - Global sales increased by 8.0% on PCP and global like-for-like sales increased by 8.4% on PCP
 - Franchisee sales revenue increased by 7.7% on PCP
 - Like-for-like franchisee sales increased by 8.8% on PCP
 - February 2015 franchisee sales to date has been stable in line with the financial year to date
- Continued strength in consumer sentiment and housing market in Australia positions HVN to harness market-leading position in Homemaker category
 - Fall in petrol prices boosting consumer sentiment
 - Strong growth in the housing market
 - Record-low interest rates in Australia
 - Significant infrastructure investment in NSW
- Company-operated segment benefitting from operational efficiencies and improving consumer sentiment in most overseas markets
- Ongoing commitment to integrated property retail model
 - Strong balance sheet and conservative gearing positions HVN to capitalise on growth opportunities
 - Provides operational flexibility and supports Omni Channel strategy
- Continued investment and focus on operational efficiencies
 - Further refinement of Omni Channel offering
 - Merchandise, inventory and supplier management system for franchisees and company-operated stores
 - Workforce productivity technology



QUESTIONS

