INTERIM REPORT 2017

THE WAREHOUSE GROUP

The past six months

- Growth in Sales and Operating Profit in Noel Leeming, Torpedo7 and Warehouse Stationery.
- Decline in Operating Profit in The Warehouse, reflective of margin compression in softer trading conditions.
- Increased loss in Financial Services and full impairment of goodwill.

"This result reinforces our need to go faster in executing real change in the business."

Torpedo7

SALES OF
$86.4 MILLION

13.5% SALES GROWTH
The performance of the Torpedo7 retail stores continued to build during the period and the 1-Day online daily deals business delivered profitable growth.

41.6% OPERATING PROFIT INCREASE ON HY16

warehouse stationery

SALES OF
$138.8 MILLION

0.7% SALES GROWTH
Solid demand over the peak trading period contributed to a steady underlying performance and market share gain.

7.4% OPERATING PROFIT INCREASE ON HY16

the warehouse
where everyone gets a bargain

SALES OF
$975.1 MILLION

0.2% SALES GROWTH
An increase in the direct sourcing mix within the period helped to counter some of the margin pressures from competition and adverse currency movements.

-9.1% OPERATING PROFIT DECREASE ON HY16

noel leeming

SALES OF
$422.1 MILLION

11.1% SALES GROWTH
Most categories performed well and the main challenge continues to be the high mix of low-margin mobile phone sales.

44.1% OPERATING PROFIT INCREASE ON HY16

THE WAREHOUSE GROUP
FINANCIAL SERVICES

OPERATING LOSS OF
$5.2 MILLION FOR HY17

INCREASED LOSS FROM $2.7M IN HY16
Actions taken during the period have stabilised the performance of the business, ahead of the new CEO joining the organisation in March.

A NON-CASH IMPAIRMENT OF GOODWILL OF **$22.7M** HAS BEEN RECOGNISED IN THE REPORTED RESULT

Reporting on our half year

Your Directors are pleased to present the unaudited results for the six months ended 29 January 2017.

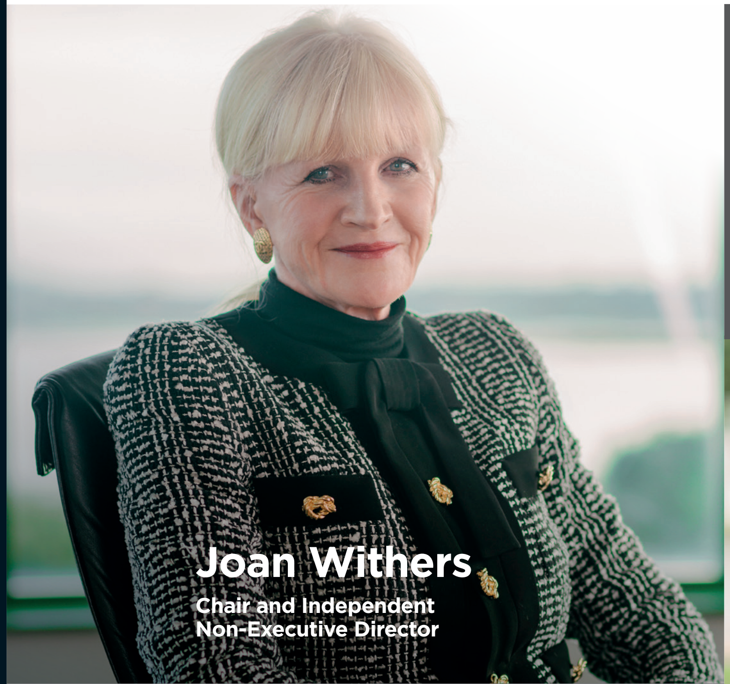
First-half performance was mixed across the brands with a subdued peak seasonal trading period and intense competition driving margin pressure. Positive results from Noel Leeming, Torpedo7 and Warehouse Stationery ('Blue Sheds') were offset by weaker performances in The Warehouse ('Red Sheds') and Financial Services.

In addition to this, the Group result reflected some one-off costs in the period, the most significant being the non-cash impairment of goodwill in Financial Services.

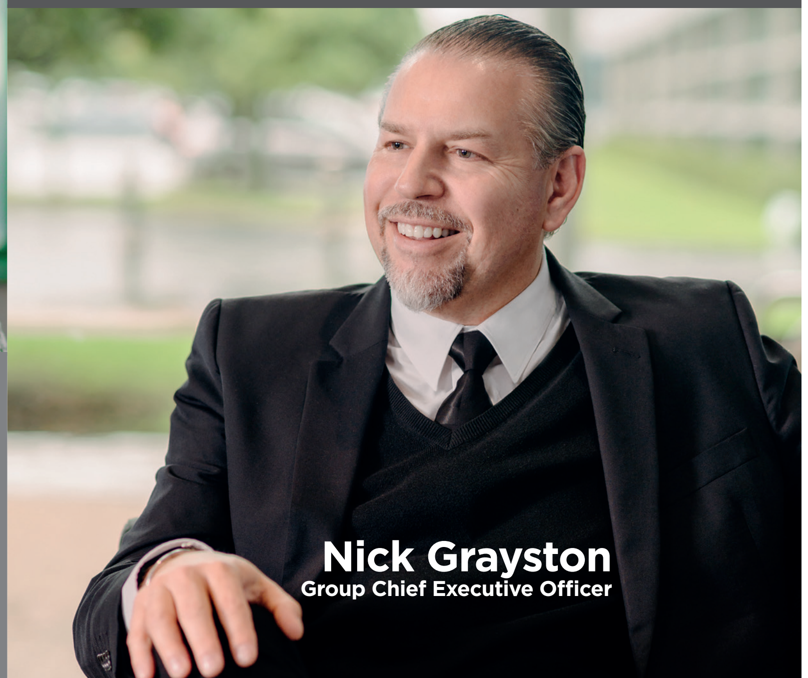
The Group announced a major restructure in the period, which is the first step in a broad programme of strategic change aimed at improving profitability and customer relevance. The Board is confident that the business is taking the necessary steps to revitalise and achieve its potential.

The Board of The Warehouse Group announced an Adjusted Net Profit After Tax[1] result of $39.7 million for the half (HY17), down 12.9% compared to $45.6 million in HY16. Reported Net Profit After Tax for the period was $13.6 million compared to $57.2 million in HY16. Group retail sales for the period were $1,611.9 million, up 3.3% compared to HY16.

Retail gross profit of $519.0 million at Group level increased by 1.2% compared to HY16, while costs of doing business of $449.1 million increased by 2.8% compared to HY16 with employee costs representing the largest component of the increase.



"The new operating model will drive greater operational synergies across the Group"



"We must compete effectively and ensure the sustainability of our business in the long term"

The Group recognised significant one-off costs in the period (excluded from Adjusted Net Profit After Tax) arising from the non-cash impairment of goodwill relating to Financial Services' ($22.7 million) acquisitions and Group operating model changes ($4.0 million). Further restructuring charges will be recognised in the second half as the changes to the Group operating model are implemented.

Work has progressed on strategic initiatives in the first half, including changes to the Group's operating model that are necessary to accelerate our strategy. The emphasis on range curation and everyday low prices (EDLP) is making steady progress. These are all important steps to position the business for the future to maintain relevance to our customers, reduce complexity and drive operating efficiencies.

The Warehouse

The Warehouse ('Red Sheds') reported sales of $975.1 million for HY17, an increase of $2.0 million or 0.2% compared to the same period last year. Same-store sales increased 1.3% in the half. Operating profit for the half was $59.5 million, a decrease of $6.0 million or 9.1% on HY16.

Weaker demand in seasonal categories and promotional changes in the first quarter impacted sales momentum. Transaction volumes were slightly lower than HY16 but offset by increased basket values. An increase in the direct sourcing mix in the period helped to counter some of the margin pressures from competition and adverse currency movements.

Warehouse Stationery

Warehouse Stationery ('Blue Sheds') reported sales of $138.8 million for HY17, an increase of $1.0 million or 0.7% compared to the same period last year. Same-store sales increased 1.2% in the half. Operating profit of $6.5 million increased by 7.4% over the same period last year.

Solid demand during the peak trading period contributed to a steady underlying performance and market share gain. Sales mix provided some gross margin challenges, but were offset by cost management.

Noel Leeming

Noel Leeming reported sales of $422.1 million for HY17, an 11.1% increase on the same period last year. Same-store sales increased by 9.9% in the half. Operating profit for the half was $9.2 million, an increase of $2.8 million or 44.1% on HY16.

Market share gains supported by successful promotional events and offers, together with a focus on margin management, have contributed to a strong performance in the period. Most categories performed well and the main challenge continues to be the high mix of low-margin mobile phone sales. Year-on-year growth is expected to soften in the second half as the business cycles the anniversary of the exit of Dick Smith from the market.

Torpedo7 Group

Torpedo7 Group reported sales of $86.4 million for HY17, up 13.5% on HY16. Operating profit of $2.4 million was an increase of 41.6% over the same period last year. The performance of the Torpedo7 retail stores continued to build during the period and the 1-Day online daily deals business delivered profitable growth.

Financial Services

The Financial Services business reported an operating loss of $5.2 million for HY17, increased from a $2.7 million loss in HY16, which was a period when the company was still in its pre-launch phase. The transition from the legacy Westpac joint-venture businesses delivered results weaker than expected and incurred costs of change. With card spend below expectations, these have contributed to the increased losses in the period. Following a detailed review of the business by the Financial Services Board, a non-cash impairment of goodwill of $22.7 million has been recognised in the reported result. This reflects the difficulties of an early-stage business with developing cash flows supporting the strategic value component of company acquisitions. Actions taken in the period have stabilised the performance of the business ahead of the new CEO joining Financial Services in March.

Online

Group online sales in New Zealand were $106.2 million, up 25.1% compared to the same period last year. The Warehouse business saw an increased mix from online sales, which were supported by a variety of promotions over the Christmas trading period.

The Warehouse Group Strategy and Outlook

The mixed first-half performance emphasises the need for the business to accelerate change and execute the retailing fundamentals with precision to restore sustainable profitable growth. The Group Strategy outlined at the time of last year's annual results is now being implemented.

The new operating model will drive greater operational synergies, particularly in the Red and Blue Sheds, increase our focus on e-commerce and digital capabilities, and allow the Group to play a stronger and more objective role in guiding the performance of the portfolio.

The second half of this financial year will therefore represent a period of transition as we prepare the organisation for future success while, at the same time ensuring we stabilise current performance trends.

Our strategy is to get our retail fundamentals right in today's changing retail environment and invest to remain relevant for our customers. We must compete effectively and ensure the sustainability of our business in the long term.

Consequently, subject to any material shifts in anticipated trading conditions, the Directors expect the second-half performance to marginally be below that of the second half of last financial year. The expected Adjusted Net Profit After Tax for the year is between $54.0 million and $58.0 million, representing an approximately 10% to 15% profit decline year-on-year.

The full-year dividend is targeted to be 15 cents per share, comprising the 10 cents interim dividend and a final dividend targeted to be five cents. This targeted 15 cents per share payout for FY17 is subject to no significant change in trading or economic environments.

Nick Grayston
Group Chief Executive Officer

Joan Withers
Chair

1 A reconciliation of Adjusted Net Profit to Reported Net Profit is detailed in note 4 of the Interim Financial Statements. Certain transactions such as any profits or losses from the disposal of properties, goodwill impairment, direct costs and adjustments relating to business acquisitions or disposals and costs connected with restructuring the Group can make the comparisons of profits between periods difficult. The Group monitors Adjusted Net Profit as a key indicator of performance and uses it as the basis for determining dividends and believes it helps investors to understand how the underlying business is performing.

Our strategy

Our goal is to be New Zealand's most successful retail group, both in terms of relevance to customers, and sustainable profitability.

During the past 12 months, under the leadership of the new CEO, The Warehouse Group has clarified its key strategic objectives which were shared with shareholders through its FY16 Annual Results and FY17 Interim Results briefings.

The Group has a rich history of success extending more than 30 years and we remain immensely proud of our achievements. The founding values around helping families and the wider community through what we offer and what we give back are as strong and relevant as ever. It's not by accident that our brand is one of the most recognised and trusted in New Zealand.

However, we cannot avoid the significant forces of change influencing both our internal and external environments and it is imperative that the business adjusts and adapts to these with urgency. The Group's strategy is designed to position the business for the future so that we can continue to grow and build on our heritage.

Focus areas:

Operational Efficiency

The multiple acquisitions over recent years have gradually added complexity at an operational level, despite the value of portfolio diversity benefits.

The first stages of internal change that have been initiated relate to the Group's operating model. These will simplify our structure and assist in driving synergies and operational efficiencies.

Investing for the Future

We are evolving and developing our digital capabilities as e-commerce and online interactions are seeing greater adoption and are providing new opportunities to engage with our customers and create points of difference. This encompasses far more than online stores and web portals; the data-rich digital world in which we now operate challenges the old ways of doing things and stimulates new ways to innovate and compete.

> **"The first half of this financial year has seen us make good progress with our strategic initiatives."**

Retail Fundamentals

If we are to be successful with the new innovations and capabilities that we have referred to, we also need to ensure that the basics of running a successful retail business are delivered to world-class standards. Managing our range of products, pricing and offers and controlling the trading cycles within the optimum lead times are critical to our performance.

The first half of this financial year has seen us make good progress with our strategic initiatives, including a new operating model, range curation (making our product ranges clearer and less duplicative), EDLP, and streamlining of fulfilment and distribution.

Financial Services

We believe the strategic value of Financial Services is important to the Group. Although the performance to date has been challenging, this is an early-stage business. We are focused on building scale within acceptable risk parameters, while completing the migration and transition of the acquired systems, processes and customer book.

Moving forward, we will be launching innovative new products to our customers that will align with and support our retail brands.

Group Strategic Objectives

CULTURE

• Customer-centric • Fast-paced, flexible and agile • Transparent • Celebrates diversity • Learn-all, not know-it-all, orientation

PRODUCT	DIGITAL	PROCESS	CSR
• EDLP • Price transparency • Range curation • Reinvent the Bargain • Great value – "making the desirable affordable and the affordable desirable" • Dynamic/flexible sourcing	• Transactional to engagement model • Omnichannel – serving customers as they choose to shop • Extended portfolio of products and services ecosystem • Develop best-in-class logistics and fulfilment capabilities	• Re-engineered for simplicity and reduced complexity • Cost reduction – eliminate non-value-add to customers • Automation • Test fast, fail fast	• Help Aotearoa flourish • Embed everything we do • Partnership with communities to give back • Protect the environment • Enable customers to choose who and what we support
MARGIN ENRICHMENT	**REDEPLOYMENT OF INVESTMENT**	**COST REDUCTION**	**STAYING TRUE TO OUR HERITAGE AND VALUES**

ENABLERS

• Top talent • Lean approach • Data-driven insights informing metrically-driven decision-making • Engage proactively with customers and team • Relentless prioritisation • Strong and supportive Board

Interim Financial Statements

for the 26 weeks ended 29 January 2017

CONTENTS:

Consolidated Income Statements

	NOTE	UNAUDITED 26 WEEKS ENDED 29 JANUARY 2017	UNAUDITED 26 WEEKS ENDED 31 JANUARY 2016	AUDITED 52 WEEKS ENDED 31 JULY 2016
		$000	$000	$000
Retail sales	3	1,611,862	1,560,449	2,924,682
Finance business revenue		10,321	8,080	20,352
Total revenue		1,622,183	1,568,529	2,945,034
Cost of retail goods sold		(1,092,854)	(1,047,617)	(1,966,510)
Other income		4,375	5,142	8,858
Lease and occupancy expenses		(76,422)	(74,504)	(148,916)
Employee expenses		(258,662)	(248,970)	(483,812)
Depreciation and amortisation expenses	3	(29,912)	(29,674)	(59,660)
Other operating expenses		(103,939)	(99,789)	(187,209)
Operating profit	3	64,769	73,117	107,785
Unusual items	4	(27,487)	15,537	15,679
Equity earnings of associate	17	–	723	723
Earnings before interest and tax		37,282	89,377	124,187
Net interest expense		(8,878)	(9,402)	(17,891)
Profit before tax		28,404	79,975	106,296
Income tax expense		(14,766)	(18,881)	(23,820)
Net profit for the period		13,638	61,094	82,476
Attributable to:				
Shareholders of the Parent		13,555	57,201	78,338
Minority interests		83	3,893	4,138
		13,638	61,094	82,476
Basic earnings per share		3.9 cents	16.6 cents	22.7 cents
Diluted earnings per share		3.9 cents	16.5 cents	22.6 cents

Consolidated Statements of Comprehensive Income

	UNAUDITED 26 WEEKS ENDED 29 JANUARY 2017	UNAUDITED 26 WEEKS ENDED 31 JANUARY 2016	AUDITED 52 WEEKS ENDED 31 JULY 2016
	$000	$000	$000
Net profit for the period	13,638	61,094	82,476
Items that may be reclassified subsequently to the Income Statement			
Movement in cash flow hedge reserve net of tax	13,423	(22,260)	(45,990)
Total comprehensive income for the period	27,061	38,834	36,486
Attributable to:			
Shareholders of the Parent	26,978	34,941	32,348
Minority interest	83	3,893	4,138
Total comprehensive income	27,061	38,834	36,486

The above Interim Financial Statements should be read in conjunction with the accompanying notes.

Consolidated Statements of Changes in Equity

(UNAUDITED)	SHARE CAPITAL	TREASURY STOCK	HEDGE RESERVES	EMPLOYEE SHARE BENEFITS RESERVE	RETAINED EARNINGS	MINORITY INTEREST	TOTAL EQUITY
	$000	$000	$000	$000	$000	$000	$000
For the 26 weeks ended 29 January 2017							
Balance at the beginning of the period	365,517	(7,832)	(22,439)	3,623	173,872	167	512,908
Profit for the half year	–	–	–	–	13,555	83	13,638
Movement in derivative cash flow hedges	–	–	18,340	–	–	–	18,340
Movement in de-designated hedges	–	–	303	–	–	–	303
Tax related to movement in hedge reserve	–	–	(5,220)	–	–	–	(5,220)
Total comprehensive income	–	–	13,423	–	13,555	83	27,061
Contributions by and distributions to owners:							
Share rights charged to the Income Statement	–	–	–	1,048	–	–	1,048
Share rights exercised	–	2,224	–	(2,505)	281	–	–
Dividends paid	–	–	–	–	(17,342)	(67)	(17,409)
Treasury stock dividends received	–	–	–	–	73	–	73
Balance at the end of the period	365,517	(5,608)	(9,016)	2,166	170,439	183	523,681

(UNAUDITED)	SHARE CAPITAL	TREASURY STOCK	HEDGE RESERVES	EMPLOYEE SHARE BENEFITS RESERVE	RETAINED EARNINGS	MINORITY INTEREST	TOTAL EQUITY
For the 26 weeks ended 31 January 2016	$000	$000	$000	$000	$000	$000	$000
Balance at the beginning of the period	365,517	(7,302)	23,551	2,937	157,154	2,425	544,282
Profit for the half year	–	–	–	–	57,201	3,893	61,094
Movement in derivative cash flow hedges	–	–	(31,218)	–	–	–	(31,218)
Movement in de-designated hedges	–	–	301	–	–	–	301
Tax related to movement in hedge reserve	–	–	8,657	–	–	–	8,657
Total comprehensive income	–	–	(22,260)	–	57,201	3,893	38,834
Contributions by and distributions to owners:							
Share rights charged to the Income Statement	–	–	–	1,876	–	–	1,876
Share rights exercised	–	1,789	–	(2,311)	522	–	–
Dividends paid	–	–	–	–	(17,342)	(142)	(17,484)
Treasury stock dividends received	–	–	–	–	89	–	89
Purchase of treasury stock	–	(1,127)	–	–	–	–	(1,127)
Balance at the end of the period	365,517	(6,640)	1,291	2,502	197,624	6,176	566,470

(AUDITED)	SHARE CAPITAL	TREASURY STOCK	HEDGE RESERVES	EMPLOYEE SHARE BENEFITS RESERVE	RETAINED EARNINGS	MINORITY INTEREST	TOTAL EQUITY
For the 52 weeks ended 31 July 2016	$000	$000	$000	$000	$000	$000	$000
Balance at the beginning of the period	365,517	(7,302)	23,551	2,937	157,154	2,425	544,282
Profit for the year	–	–	–	–	78,338	4,138	82,476
Movement in derivative cash flow hedges	–	–	(64,480)	–	–	–	(64,480)
Movement in de-designated hedges	–	–	605	–	–	–	605
Tax related to movement in hedge reserve	–	–	17,885	–	–	–	17,885
Total comprehensive income	–	–	(45,990)	–	78,338	4,138	36,486
Contributions by and distributions to owners:							
Share rights charged to the income statement	–	–	–	3,208	–	–	3,208
Share rights exercised	–	2,001	–	(2,522)	521	–	–
Dividends paid	–	–	–	–	(55,495)	(3,522)	(59,017)
Treasury stock dividends received	–	–	–	–	280	–	280
Purchase of treasury stock	–	(2,531)	–	–	–	–	(2,531)
Purchase of minority interest	–	–	–	–	(6,926)	(2,874)	(9,800)
Balance at the end of the period	365,517	(7,832)	(22,439)	3,623	173,872	167	512,908

The above Interim Financial Statements should be read in conjunction with the accompanying notes.

Balance Sheets

	NOTE	CONSOLIDATED			RETAIL GROUP			FINANCIAL SERVICES		
		UNAUDITED AS AT 29 JANUARY 2017	UNAUDITED AS AT 31 JANUARY 2016	AUDITED AS AT 31 JULY 2016	UNAUDITED AS AT 29 JANUARY 2017	UNAUDITED AS AT 31 JANUARY 2016	AUDITED AS AT 31 JULY 2016	UNAUDITED AS AT 29 JANUARY 2017	UNAUDITED AS AT 31 JANUARY 2016	AUDITED AS AT 31 JULY 2016
		$000	$000	$000	$000	$000	$000	$000	$000	$000
ASSETS										
Current assets										
Cash and cash equivalents	11	44,535	43,737	49,881	38,888	39,098	36,531	5,647	4,639	13,350
Finance business receivables		74,675	73,496	73,565	–	–	–	74,675	73,496	73,565
Trade and other receivables	6	80,427	88,670	77,059	77,878	85,587	72,434	2,549	3,083	4,625
Available-for-sale property	9	52,281	7,394	52,277	52,281	7,394	52,277	–	–	–
Inventories		540,513	534,972	501,713	540,513	534,972	501,713	–	–	–
Derivative financial instruments	12	500	9,067	621	500	9,067	621	–	–	–
Taxation receivable		–	–	–	–	–	–	5,543	3,213	3,352
Total current assets		792,931	757,336	755,116	710,060	676,118	663,576	88,414	84,431	94,892
Non-current assets										
Property, plant and equipment	9	252,929	335,938	271,043	251,787	334,776	269,791	1,142	1,162	1,252
Intangible assets	10	146,504	162,637	166,394	122,486	118,437	120,218	24,018	44,200	46,176
Investment in finance business		–	–	–	45,880	66,810	76,797	–	–	–
Derivative financial instruments	12	291	296	738	291	296	738	–	–	–
Deferred taxation		48,439	37,933	49,597	45,875	35,390	47,304	2,564	2,543	2,293
Total non-current assets		448,163	536,804	487,772	466,319	555,709	514,848	27,724	47,905	49,721
Total assets		1,241,094	1,294,140	1,242,888	1,176,379	1,231,827	1,178,424	116,138	132,336	144,613
LIABILITIES										
Current liabilities										
Borrowings	11	81,162	123,751	125,202	81,162	123,751	125,202	–	–	–
Trade and other payables	7	329,092	274,992	271,308	322,274	268,717	264,424	6,818	6,275	6,884
Derivative financial instruments	12	9,634	1,871	25,133	9,634	1,871	25,133	–	–	–
Taxation payable		667	4,758	2,068	6,210	7,971	5,420	–	–	–
Provisions	8	49,525	53,677	58,915	48,682	52,911	58,108	843	766	807
Total current liabilities		470,080	459,049	482,626	467,962	455,221	478,287	7,661	7,041	7,691
Non-current liabilities										
Borrowings	11	164,121	189,372	164,534	164,121	189,372	164,534	–	–	–
Securitised borrowings	11	62,597	58,485	60,125	–	–	–	62,597	58,485	60,125
Derivative financial instruments	12	1,855	3,261	4,845	1,855	3,261	4,845	–	–	–
Provisions	8	18,760	17,503	17,850	18,760	17,503	17,850	–	–	–
Total non-current liabilities		247,333	268,621	247,354	184,736	210,136	187,229	62,597	58,485	60,125
Total liabilities		717,413	727,670	729,980	652,698	665,357	665,516	70,258	65,526	67,816
Net assets		523,681	566,470	512,908	523,681	566,470	512,908	45,880	66,810	76,797
EQUITY										
Contributed equity		359,909	358,877	357,685	359,909	358,877	357,685	–	–	–
Reserves		(6,850)	3,793	(18,816)	(6,850)	3,793	(18,816)	–	–	–
Retained earnings		170,439	197,624	173,872	170,439	197,624	173,872	–	–	–
Investment in finance business		–	–	–	–	–	–	45,880	66,810	76,797
Total equity attributable to shareholders		523,498	560,294	512,741	523,498	560,294	512,741	45,880	66,810	76,797
Minority interest		183	6,176	167	183	6,176	167	–	–	–
Total equity		523,681	566,470	512,908	523,681	566,470	512,908	45,880	66,810	76,797
Net assets per share (cents)		151.7	164.2	148.9						

The above Interim Financial Statements should be read in conjunction with the accompanying notes.

Consolidated Statements of Cash Flows

	NOTE	UNAUDITED 26 WEEKS ENDED 29 JANUARY 2017	UNAUDITED 26 WEEKS ENDED 31 JANUARY 2016	AUDITED 52 WEEKS ENDED 31 JULY 2016
		$000	$000	$000
Cash flows from operating activities				
Cash received from customers		1,613,069	1,563,921	2,944,555
Payments to suppliers and employees		(1,509,992)	(1,464,313)	(2,745,746)
Income tax paid		(20,091)	(18,264)	(28,037)
Interest paid		(8,344)	(8,809)	(16,495)
		74,642	72,535	154,277
Loans repaid by finance business customers		86,898	76,247	148,306
New loans to finance business customers		(82,998)	(72,952)	(140,123)
Net cash flows from operating activities		78,542	75,830	162,460
Cash flows from investing activities				
Proceeds from sale of property, plant and equipment		14,827	14,204	39,488
Proceeds from business disposal		–	–	6,382
Dividend received from associate	17	–	2,695	2,695
Purchase of property, plant, equipment and software		(38,434)	(37,355)	(75,180)
Contingent consideration		(1,000)	(1,575)	(1,575)
Acquisition of minority interest		–	–	(9,800)
Acquisition of subsidiaries, net of cash acquired	16	–	(4,363)	(4,363)
Other items		–	3	3
Net cash flows from investing activities		(24,607)	(26,391)	(42,350)
Cash flows from financing activities				
Proceeds from/(Repayment) retail borrowings		(43,651)	(18,335)	(41,825)
Proceeds from/(Repayment) securitised borrowings		2,472	(144)	1,496
Repayment of finance leases		(629)	(764)	(1,402)
Purchase of treasury stock		–	(1,127)	(2,531)
Treasury stock dividends received		73	89	280
Dividends paid to Parent shareholders		(17,479)	(17,474)	(55,920)
Dividends paid to minority shareholders		(67)	(142)	(2,522)
Net cash flows from financing activities		(59,281)	(37,897)	(102,424)
Net cash flow		(5,346)	11,542	17,686
Opening cash position		49,881	32,195	32,195
Closing cash position		44,535	43,737	49,881

Reconciliation of Operating Cash Flows

	NOTE	29 JANUARY 2017	31 JANUARY 2016	31 JULY 2016
Profit after tax		13,638	61,094	82,476
Non-cash items				
Depreciation and amortisation expenses	3	29,912	29,674	59,660
Goodwill impairment	10	22,714	–	–
Share-based payment expense		1,048	1,876	3,208
Interest capitalisation		272	321	621
Movement in deferred tax		(3,977)	(5,626)	(7,977)
Movement in de-designated derivative hedges		218	217	436
Share of surplus retained by associate		–	(723)	(723)
Total non-cash items		50,187	25,739	55,225
Items classified as investing or financing activities				
Net loss/(gain) on sale of property, plant and equipment		1,289	(5,010)	(4,392)
Gain on business disposal	15	–	(9,950)	(9,950)
Direct costs relating to acquisitions	16	–	479	479
Contingent consideration		–	(675)	(675)
Supplementary dividend tax credit		137	132	425
Total investing and financing adjustments		1,426	(15,024)	(14,113)
Changes in assets and liabilities				
Trade and other receivables		(3,368)	(7,880)	(3,681)
Finance business receivables		(1,110)	(2,258)	(2,327)
Inventories		(38,800)	(25,408)	7,851
Trade and other payables		66,450	23,486	18,054
Provisions		(8,480)	9,887	15,471
Income tax		(1,401)	6,194	3,504
Total changes in assets and liabilities		13,291	4,021	38,872
Net cash flows from operating activities		78,542	75,830	162,460

The above Interim Financial Statements should be read in conjunction with the accompanying notes.

Notes to the Financial Statements

1. GENERAL INFORMATION

The Warehouse Group Limited and its subsidiaries (together the 'Group') operates in the New Zealand Retail and Financial Services sectors.

The Warehouse Group Limited is a limited liability company incorporated and domiciled in New Zealand and registered under the New Zealand Companies Act 1993. The address of its registered office is Level 4, BDO Centre, 4 Graham Street, PO Box 2219, Auckland. The Group is listed on the New Zealand Stock Exchange (NZX).

The Interim Financial Statements of the Group have been prepared in accordance with the requirements of the Financial Reporting Act 2013, the Companies Act 1993 and the NZX. The Warehouse Group Limited is registered under the Companies Act 1993 and is an FMC Reporting Entity under Part 7 of the Financial Markets Conduct Act 2013.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Interim Financial Statements of the Group have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP). They comply with NZ IAS 34 Interim Financial Reporting and IAS 34 Interim Financial Reporting and, consequently, do not include all the information required for full financial statements. These Group Interim Financial Statements should be read in conjunction with the Annual Report for the year ended 31 July 2016.

These financial statements have been prepared under the historical cost convention except for the revaluation of certain financial instruments (including derivative instruments). The reporting currency used in the preparation of the financial statements is New Zealand dollars, rounded to the nearest thousands unless otherwise stated.

The accounting policies that materially affect the measurement of the Interim Financial Statements have been applied on a consistent basis with those used in the audited financial statements for the 52 weeks ended 31 July 2016 and the unaudited Interim Financial Statements for the 26 weeks ended 31 January 2016.

There have been no significant changes in accounting polices applied by the Group during the current half-year period.

Seasonality

The Group's revenue and profitability follow a seasonal pattern with higher sales and operating profits typically achieved in the first half of the financial year as a result of additional sales generated during the Christmas trading period.

Approval of Financial Statements

These consolidated Interim Financial Statements were approved for issue by the Board of Directors on 8 March 2017. Unless as otherwise stated, the financial statements have been reviewed by our Auditors, but are not audited.

3. SEGMENT INFORMATION

Operating segments

The Group has four main operating segments trading in the New Zealand retail sector and one in the financial services sector. The operating segments are managed separately with their own management, stores and infrastructure. These segments form the basis of internal reporting used by Management and the Board of Directors to monitor and assess performance and assist with strategy decisions.

The Warehouse

The Warehouse is predominantly a general merchandise and apparel retailer, with 92 stores located throughout New Zealand.

Warehouse Stationery

Warehouse Stationery is a stationery retailer, with 67 stores located throughout New Zealand.

Noel Leeming

Noel Leeming is a consumer electronics and home appliances retailer, with 77 stores located throughout New Zealand.

Torpedo7

Torpedo7 is a multichannel retailer operating both online through a variety of websites and through 12 stores located throughout New Zealand.

Finance Business

The Financial Services Group is a credit card business offering credit to customers through various branded credit cards. In September 2015, the Group gained control over The Warehouse Financial Services Limited (TWFSL) when it acquired 100% of the company's share capital and significantly increased the scale of this business (refer note 16).

Other Group operations

This segment includes the Group's property operations, which owns a number of stores occupied by the other business segments.
This segment also includes the Group's corporate function and Waikato Valley Chocolates, which supplies products to The Warehouse.

Transfer prices between business segments are set on an arm's-length basis in a manner similar to third parties. Segment revenues and expenses include transfers between segments, which are eliminated on consolidation.

Notes to the Financial Statements – continued

3. SEGMENT INFORMATION (CONTINUED)

	REVENUE			OPERATING PROFIT		
	UNAUDITED 26 WEEKS ENDED 29 JANUARY 2017	UNAUDITED 26 WEEKS ENDED 31 JANUARY 2016	AUDITED 53 WEEKS ENDED 31 JULY 2016	**UNAUDITED 26 WEEKS ENDED 29 JANUARY 2017**	UNAUDITED 26 WEEKS ENDED 31 JANUARY 2016	AUDITED 53 WEEKS ENDED 31 JULY 2016
OPERATING PERFORMANCE	**$000**	$000	$000	**$000**	$000	$000
The Warehouse	975,097	973,081	1,760,708	59,508	65,486	89,376
Warehouse Stationery	138,775	137,789	279,155	6,455	6,009	14,288
Noel Leeming	422,149	379,844	752,137	9,207	6,390	12,050
Torpedo7	86,402	76,126	148,660	2,424	1,712	3,380
Other Group operations	5,436	10,114	13,201	(7,670)	(3,801)	(7,929)
Inter-segment eliminations	(15,997)	(16,505)	(29,179)	–	–	–
Retail Group	1,611,862	1,560,449	2,924,682	69,924	75,796	111,165
Financial Services Group	10,321	8,080	20,352	(5,155)	(2,679)	(3,380)
	1,622,183	1,568,529	2,945,034	64,769	73,117	107,785
Unallocated revenue/(expenses)						
Gain/(loss) on disposal of property				(812)	5,391	5,533
Gain on business disposals				–	9,950	9,950
Operating model restructuring costs				(3,961)	–	–
Goodwill impairment (Financial Services Group)				(22,714)	–	–
Contingent consideration				–	675	675
Direct costs relating to acquisitions				–	(479)	(479)
Equity earnings of associate				–	723	723
Earnings before interest and tax				37,282	89,377	124,187
Net interest expense				(8,878)	(9,402)	(17,891)
Net profit before taxation for the period				28,404	79,975	106,296
Attributable to:						
Retail Group				58,565	84,186	113,412
Finance business				(30,161)	(4,211)	(7,116)
Net profit before taxation for the period				28,404	79,975	106,296
Operating margin						
The Warehouse (%)				6.1	6.7	5.1
Warehouse Stationery (%)				4.7	4.4	5.1
Noel Leeming (%)				2.2	1.7	1.6
Torpedo7 (%)				2.8	2.2	2.3
Total Retail Group (%)				4.3	4.9	3.8

		CAPITAL EXPENDITURE			DEPRECIATION & AMORTISATION		
	NOTE	**UNAUDITED 26 WEEKS ENDED 29 JANUARY 2017**	UNAUDITED 26 WEEKS ENDED 31 JANUARY 2016	AUDITED 53 WEEKS ENDED 31 JULY 2016	**UNAUDITED 26 WEEKS ENDED 29 JANUARY 2017**	UNAUDITED 26 WEEKS ENDED 31 JANUARY 2016	AUDITED 53 WEEKS ENDED 31 JULY 2016
CAPITAL EXPENDITURE AND DEPRECIATION		**$000**	$000	$000	**$000**	$000	$000
The Warehouse		18,330	16,730	41,301	20,332	20,612	41,105
Warehouse Stationery		1,386	2,491	5,296	3,403	3,206	6,578
Noel Leeming		6,996	2,578	6,875	4,044	3,567	7,484
Torpedo7		185	332	781	571	627	1,240
Other Group operations		2,541	5,566	10,156	704	1,055	1,803
Retail Group		29,438	27,697	64,409	29,054	29,067	58,210
Finance business		1,303	6,102	9,017	858	607	1,450
Total Group	9	30,741	33,799	73,426	29,912	29,674	59,660

3. SEGMENT INFORMATION (CONTINUED)

		TOTAL ASSETS			TOTAL LIABILITIES		
	NOTE	**UNAUDITED AS AT 29 JANUARY 2017**	UNAUDITED AS AT 31 JANUARY 2016	AUDITED AS AT 31 JULY 2016	**UNAUDITED AS AT 29 JANUARY 2017**	UNAUDITED AS AT 31 JANUARY 2016	AUDITED AS AT 31 JULY 2016
BALANCE SHEET INFORMATION		**$000**	$000	$000	**$000**	$000	$000
The Warehouse		492,567	494,939	481,322	210,479	188,189	183,502
Warehouse Stationery		85,345	89,316	78,021	38,569	37,748	33,084
Noel Leeming		176,379	164,467	154,374	126,137	92,249	103,548
Torpedo7		50,131	53,161	49,504	11,956	11,861	10,870
Other Group operations		138,198	176,956	150,886	2,575	9,084	9,378
Retail Group		942,620	978,839	914,107	389,716	339,131	340,382
Finance business		102,382	99,227	102,903	7,661	7,041	7,691
Operating assets/liabilities		1,045,002	1,078,066	1,017,010	397,377	346,172	348,073
Unallocated assets/liabilities							
Cash and borrowings	11	44,535	43,737	49,881	307,880	371,608	349,861
Derivative financial instruments	12	791	9,363	1,359	11,489	5,132	29,978
Intangible Goodwill and Brands	10	102,327	125,041	125,041	–	–	–
Taxation		48,439	37,933	49,597	667	4,758	2,068
Total		1,241,094	1,294,140	1,242,888	717,413	727,670	729,980

4. ADJUSTED NET PROFIT

	NOTE	**UNAUDITED 26 WEEKS ENDED 29 JANUARY 2017**	UNAUDITED 26 WEEKS ENDED 31 JANUARY 2016	AUDITED 53 WEEKS ENDED 31 JULY 2016
ADJUSTED NET PROFIT RECONCILIATION		**$000**	$000	$000
Adjusted net profit		39,677	45,553	64,110
Add back: Unusual items				
Gain on business disposals	15	–	9,950	9,950
Direct costs relating to acquisitions	16	–	(479)	(479)
Operating model restructuring costs	14	(3,961)	–	–
Goodwill impairment (Financial Services Group)	10	(22,714)	–	–
Contingent consideration		–	675	675
Gain/(Loss) on disposal of property	9	(812)	5,391	5,533
Unusual items before taxation		(27,487)	15,537	15,679
Income tax relating to unusual items		1,336	(1,509)	(1,545)
Income tax expense related to depreciation recovered on building disposals		29	1,234	3,708
Unusual items after taxation		(26,122)	15,262	17,842
Minority interest	15	–	(3,614)	(3,614)
Net profit attributable to shareholders of the Parent		13,555	57,201	78,338

Certain transactions can make the comparison of profits between years difficult. The Group uses adjusted net profit as a key indicator of performance and consider it provides a better understanding of underlying business performance and the Group also uses it as the basis for determining dividend payments (after adjusting for losses from the Financial Services Group). Adjusted net profit makes allowance for the after-tax effect of unusual items which are not directly connected with the Group's normal trading activities. The Group defines unusual items as any profits or losses from the disposal of properties or investments, goodwill impairment, direct costs and adjustments relating to business acquisitions or disposals and costs connected with restructuring the Group.

5. DIVIDENDS

	CENTS PER SHARE			DIVIDENDS PAID		
	UNAUDITED 26 WEEKS ENDED 29 JANUARY 2017	UNAUDITED 26 WEEKS ENDED 31 JANUARY 2016	AUDITED 52 WEEKS ENDED 31 JULY 2016	**UNAUDITED 26 WEEKS ENDED 29 JANUARY 2017**	UNAUDITED 26 WEEKS ENDED 31 JANUARY 2016	AUDITED 52 WEEKS ENDED 31 JULY 2016
DIVIDENDS PAID				**$000**	$000	$000
Prior year final dividend	5.0	5.0	5.0	17,342	17,342	17,342
Interim dividend	–	–	11.0	–	–	38,153
Total dividends paid	5.0	5.0	16.0	17,342	17,342	55,495

On 8 March 2017, the Board declared a fully imputed interim dividend of 10.0 cents per ordinary share to be paid on 13 April 2017 to all shareholders on the Group's share register at the close of business on 3 April 2017.

Notes to the Financial Statements – continued

6. TRADE AND OTHER RECEIVABLES

	NOTE	UNAUDITED AS AT 29 JANUARY 2017	UNAUDITED AS AT 31 JANUARY 2016	AUDITED AS AT 31 JULY 2016
		$000	$000	$000
Trade receivables		44,576	47,853	41,131
Prepayments		10,538	9,214	11,092
Business disposal proceeds receivable	15	1,000	8,411	1,000
Rebate accruals and other debtors		24,313	23,192	23,836
Total trade and other receivables		80,427	88,670	77,059

7. TRADE AND OTHER PAYABLES

	UNAUDITED AS AT 29 JANUARY 2017	UNAUDITED AS AT 31 JANUARY 2016	AUDITED AS AT 31 JULY 2016
	$000	$000	$000
Trade creditors and accruals	242,724	215,036	198,828
Goods in transit creditors	18,681	14,728	19,673
Capital expenditure creditors	1,719	7,634	9,412
Goods and services tax	37,913	10,679	11,109
Reward schemes, lay-bys, Christmas club deposits and gift vouchers	16,147	16,284	18,010
Contingent consideration	–	1,000	1,000
Interest accruals	1,505	1,698	1,597
Payroll accruals	10,403	7,933	11,679
Total trade and other payables	329,092	274,992	271,308

8. PROVISIONS

	UNAUDITED AS AT 29 JANUARY 2017	UNAUDITED AS AT 25 JANUARY 2015	AUDITED AS AT 2 AUGUST 2015
	$000	$000	$000
Current liabilities	49,525	53,677	58,915
Non-current liabilities	18,760	17,503	17,850
Total provisions	68,285	71,180	76,765
Provisions consist of:			
Employee entitlements	55,416	58,337	64,256
Make-good provision	7,868	7,279	7,613
Sales returns provision	4,119	4,171	3,689
Onerous lease	882	1,393	1,207
Total provisions	68,285	71,180	76,765

9. PROPERTY, PLANT, EQUIPMENT AND COMPUTER SOFTWARE

	NOTE	UNAUDITED AS AT 29 JANUARY 2017	UNAUDITED AS AT 31 JANUARY 2016	AUDITED AS AT 31 JULY 2016
		$000	$000	$000
Available-for-sale property		52,281	7,394	52,277
Property, plant and equipment		252,929	335,938	271,043
Computer software	10	44,177	37,596	41,353
Net book value		349,387	380,928	364,673
Movement in property, plant, equipment and software				
Balance at the beginning of the period		364,673	386,709	386,709
Capital expenditure	3	30,741	33,799	73,426
Depreciation and amortisation	3	(29,912)	(29,674)	(59,660)
Disposals		(16,115)	(9,906)	(35,802)
Balance at the end of the period		349,387	380,928	364,673

Property sales

During the current half-year, the Group sold two store properties and a parcel of land for a combined net consideration of $14.904 million realising a pre-tax loss of $0.812 million.

During the first half of the comparative year, the Group sold one store property and, in the second half year, two further store properties plus three parcels of surplus land. Together, the sale of these properties realised a pre-tax profit of $5.533 million (HY16: $5.391 million).

Available-for-sale property

The Group's Newmarket store property continues to be classified as available for sale following its initial classification at the previous balance date as the Group considers the possible sale and future development options for this property.

The Group's store property at Kaitaia was classified as available for sale at the previous half-year balance date and subsequently sold in March 2016.

10. INTANGIBLE ASSETS

	NOTE	UNAUDITED AS AT 29 JANUARY 2017	UNAUDITED AS AT 31 JANUARY 2016	AUDITED AS AT 31 JULY 2016
		$000	$000	$000
Computer software	9	44,177	37,596	41,353
Brands		23,523	23,523	23,523
Goodwill		78,804	101,518	101,518
Net book value		146,504	162,637	166,394
Movement in Goodwill				
Balance at the beginning of the period		101,518	92,295	92,295
Goodwill impairment (Financial Services Group)		(22,714)	–	–
Disposal of business – Goodwill	15	–	(2,477)	(2,477)
Acquisition of businesses – Goodwill	16	–	11,700	11,700
Balance at the end of the period		78,804	101,518	101,518

The Group performs a detailed impairment assessment of the Group's intangible assets annually and considers whether there have been any indicators of impairment at each interim reporting date. The Group's interim review did not identify any significant indicators of impairment in any of the Group's cash generating units with the exception of the Financial Services Group goodwill, which would require an impairment charge.

Financial Services Goodwill impairment

The trading performance from the Financial Services Group during the current half year continued to be below expectation caused largely by a fewer than expected number of cardholders (acquired as part of the Westpac acquisition – refer note 16) taking up new card offers. This resulted in the Board reviewing the outlook for the Financial Services Group and looking at various alternative strategies to gain the scale necessary for the business to achieve profitability.

As a result of this review current forecasts show that it will take longer to achieve the desired scale of the loan book and the breakeven date for the business has been extended from 2018 to 2021. The review also indicated that the carrying value of the business is impaired and accordingly the Board has decided to write off all the goodwill attributed to the Financial Services business.

Notes to the Financial Statements – continued

11. BORROWINGS

	UNAUDITED AS AT 29 JANUARY 2017	UNAUDITED AS AT 31 JANUARY 2016	AUDITED AS AT 31 JULY 2016
NET DEBT	$000	$000	$000
Cash on hand and at bank	44,535	43,737	49,881
Bank borrowings	80,329	122,470	123,980
Lease liabilities	833	1,281	1,222
Current borrowings	81,162	123,751	125,202
Bank borrowings	40,000	65,000	40,000
Lease liabilities	305	988	490
Fixed rate senior bond (coupon: 5.30%)	125,000	125,000	125,000
Fair value adjustment relating to effective interest	291	296	738
Unamortised capitalised costs on senior bond	(1,475)	(1,912)	(1,694)
Non-current borrowings	164,121	189,372	164,534
Non-current securitised borrowings	62,597	58,485	60,125
Total borrowings	307,880	371,608	349,861
Net debt	263,345	327,871	299,980
Committed bank credit facilities at balance date are:			
Bank debt facilities	340,000	340,000	340,000
Bank facilities used	(120,329)	(187,470)	(163,980)
Unused bank debt facilities	219,671	152,530	176,020
Securitised debt facility	150,000	225,000	225,000
Securitised facility used	(62,597)	(58,485)	(60,125)
Unused securitised debt facility	87,403	166,515	164,875
Letter of credit facilities	32,526	28,000	32,566
Letters of credit	(11,933)	(11,295)	(21,370)
Unused letter of credit facilities	20,593	16,705	11,196
Total unused bank facilities	327,667	335,750	352,091

12. DERIVATIVE FINANCIAL INSTRUMENTS

	UNAUDITED AS AT 29 JANUARY 2017	UNAUDITED AS AT 31 JANUARY 2016	AUDITED AS AT 31 JULY 2016
	$000	$000	$000
Current assets	500	9,067	621
Non-current assets	291	296	738
Current liabilities	(9,634)	(1,871)	(25,133)
Non-current liabilities	(1,855)	(3,261)	(4,845)
Total derivative financial instruments	(10,698)	4,231	(28,619)
Derivative financial instruments consist of:			
Current assets	500	9,067	621
Current liabilities	(8,684)	(1,002)	(24,263)
Foreign exchange contracts	(8,184)	8,065	(23,642)
Current assets	–	–	–
Current liabilities	(950)	(869)	(870)
Non-current assets	291	296	738
Non-current liabilities	(1,855)	(3,261)	(4,845)
Interest rate swaps	(2,514)	(3,834)	(4,977)
Total derivative financial instruments	(10,698)	4,231	(28,619)

The Group continues to manage its foreign exchange and interest rate risks in accordance with the policies and parameters detailed in the 2016 Annual Report.

The Group's foreign exchange contracts hedge forecast inventory purchases priced in US dollars over the next 12 months. The following table lists the key inputs used to determine the fair value of the Group's foreign exchange contracts at balance date.

US dollar forward contracts – cash flow hedges			
Notional amount (NZ$000)	310,758	316,560	363,291
Average contract rate ($)	0.7034	0.6582	0.6714
Spot rate used to determine fair value ($)	0.7261	0.6476	0.7228

13. FAIR VALUE MEASUREMENT

The following table sets out the Group's financial instruments that are measured subsequent to initial recognition at fair values and are grouped into levels based on the degree to which the fair value is observable:

Level 1 – fair value measurements derived from quoted prices in active markets for identical assets.

Level 2 – fair value measurements derived from inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 – fair value measurements derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data.

ASSET/(LIABILITY)		NOTE	UNAUDITED AS AT 29 JANUARY 2017	UNAUDITED AS AT 31 JANUARY 2016	AUDITED AS AT 31 JULY 2016
			$000	$000	$000
Derivatives used for hedging					
Foreign exchange contracts	(Level 2)	12	(8,184)	8,065	(23,642)
Interest rate swaps	(Level 2)	12	(2,514)	(3,834)	(4,977)
Senior bond fair value adjustment relating to effective interest	(Level 2)	12	(291)	(296)	(738)

There has been no transfers between levels or changes in the valuation methods used to determine the fair value of the Group's financial instruments during the current and comparative periods. Sensitivities to reasonably possible changes in non-market observable valuation inputs would not have a material impact on the Group's financial results.

Specific valuation techniques used to value financial instruments are:

- Forward exchange contracts determined using forward exchange market rates at the balance date (refer note 12)
- Interest rate swaps calculated as the present value of the estimated future cash flows based on the applicable market interest yield rates at balance date.

Except for the Group's fixed rate senior bond (refer note 11) and derivatives (detailed above), the carrying value of the Group's financial assets and liabilities approximate fair value. The fixed rate senior bond is listed on the NZX and measured at amortised cost. The fair value of fixed rate senior bonds at balance date, based on the last price traded on the NZX (level 1 valuation), were as follows.

FIXED RATE SENIOR BOND	UNAUDITED AS AT 29 JANUARY 2017	UNAUDITED AS AT 31 JANUARY 2016	AUDITED AS AT 31 JULY 2016
Face value ($000)	125,000	125,000	125,000
Coupon (%)	5.30	5.30	5.30
Market yield (%)	4.15	4.30	3.74
Maturity	June 2020	June 2020	June 2020
NZX quoted closing price ($)	1.04262	1.04659	1.06261
Fair value ($000)	130,328	130,824	132,826

14. OPERATING MODEL RESTRUCTURING COSTS

The Group is making a series of changes to its business operating model. These are designed to drive an improvement in financial performance, reduce costs and generate greater customer relevance. The changes focus primarily on simplification to reduce complexities, drive efficiencies and increase business agility. This involves strengthening and consolidating the various Group support service functions to drive synergy benefits, deliver efficiencies and reduce complexity. It also involves combining The Warehouse and Warehouse Stationery and similarly combining the Noel Leeming and Torpedo7 Groups by integrating their operating structures and executive leadership teams.

One-off restructuring costs of changing the business operating model are estimated to be between $10 million and $13 million, of which $3.961 million was incurred prior to balance date with the remaining costs associated with the transition expected to be incurred in the second half of the current financial year.

Notes to the Financial Statements – continued

15. BUSINESS DISPOSALS – PRIOR PERIOD

FOR THE 26 WEEKS ENDED 29 JANUARY 2017 AND THE 52 WEEKS ENDED 31 JULY 2016	NOTE	TWFSL	PET.CO.NZ	TOTAL
		$000	$000	$000
Consideration	7	6,006	8,411	14,417
Net assets sold		806	1,184	1,990
Goodwill		–	2,477	2,477
Carrying value of net assets sold		806	3,661	4,467
Gain on business disposal		5,200	4,750	9,950
Minority interest		–	(3,614)	(3,614)
Gain on business disposal (after minority interests)		5,200	1,136	6,336

Sale and Purchase of The Warehouse Financial Services Limited

In September 2015, the Group gained control of The Warehouse Financial Services Limited (TWFSL) by increasing its shareholding from 49% to 100% of TWFSL's share capital. For accounting purposes this single transaction was treated as having two distinct components, the first being the sale by the Retail Group (RG) of its 49% TWFSL associate investment, and the second, the purchase by the Financial Services Group (FSG) of TWFSL's share capital from both Westpac as the majority 51% shareholder and RG as the 49% associate shareholder. Details of the second part of the transaction regarding the acquisition can be found in note 16. In respect of the first part and the inter-company sale transaction between the FSG and RG for the 49% associate investment, this resulted in a notional gain on sale of $5.200 million. This gain was calculated with reference to the premium above net assets paid to Westpac for its 51% TWFSL shareholding and is included as a component of goodwill arising on the acquisition.

Pet.co.nz Limited business disposal

At the end of January 2016 the Group sold the business assets of Pet.co.nz (formerly Shop HQ Limited) for a consideration of $8.411 million.

16. BUSINESS COMBINATIONS – PRIOR PERIOD

In September 2015, the Group gained control over TWFSL when it acquired 100% of the company's share capital. The Group had previously held a non-controlling 49% interest in TWFSL which was accounted for as an equity investment (refer note 17). Based on the best information available, the Group has initially recognised the following identifiable acquisition assets and liabilities for the business acquired.

FOR THE 26 WEEKS ENDED 29 JANUARY 2017 AND THE 52 WEEKS ENDED 31 JULY 2016	NOTE	TOTAL
		$000
Cash and cash equivalents		3,453
Finance business receivables		57,010
Trade and other receivables		346
Deferred taxation		640
		61,449
Trade and other payables		(357)
Provision for tax		(820)
Borrowings	17	(58,629)
Provisional fair value of identifiable net assets		1,643
Goodwill arising on acquisition	10	11,700
Total consideration		13,343
The acquisition consideration is as follows:		
Cash paid for Westpac's 51% interest in TWFSL		7,337
Value attributed to the Group's previously-held 49% equity investment in TWFSL		6,006
		13,343
The cash outflow on acquisitions is as follows:		
Cash and cash equivalents acquired		(3,453)
Direct costs relating to the acquisition		479
Purchase consideration settled in cash		7,337
Net consolidated cash outflow		4,363
Equity investment		
Value attributed to the Group's previously-held 49% equity investment in TWFSL		6,006
Carrying value	17	806
Gain on disposal recognised in the income statement	15	5,200

The acquisition of TWFSL represented the next step in the Group's development of an in-house financial services business and followed the earlier acquisition of Diners Club (NZ) Limited in March 2014. TWFSL offered credit and risk-related products that included credit cards and insurance cover. The increase in the Finance Receivable loan book following the acquisition helped to provide scale and will enable the Group to leverage its current infrastructure, core systems and people capability to grow this business segment cost effectively.

17. INVESTMENT – PRIOR PERIOD

FOR THE 26 WEEKS ENDED 29 JANUARY 2017 AND THE 52 WEEKS ENDED 31 JULY 2016	NOTE	TOTAL
		$000
Investment at beginning of the year		2,778
Share of associates profit before taxation		1,004
Less taxation		(281)
Equity earnings of associate		723
Dividend received from associate		(2,695)
Acquisition of majority shareholder	16	(806)
Investment at end of the period		–

The Warehouse Financial Services Limited

The Group ceased accounting for TWFSL as an equity investment when it acquired 100% of the share capital of TWFSL in September 2015. Prior to the acquisition the Group held a 49% interest, and Westpac a 51% interest in TWFSL. Following the acquisition the income statement and balance sheet of TWFSL have been fully consolidated and included within the Financial Services Group segment. Further information regarding the details of the acquisition are provided in note 16.

18. MINORITY INTEREST ACQUISITION – PRIOR PERIOD

In March 2016, the Group acquired the remaining 20% of the share capital of Torpedo7 Limited for a consideration of $9.800 million, increasing the Group's interest in the Torpedo7 group of companies from 80% to 100%. The consideration had two components: a cash component of $7.500 million settled in March 2016 and the transfer to the minority interest of the Group's interest in a parcel of surplus land located in Hamilton (valued at $2.300 million).

19. COMMITMENTS

	UNAUDITED AS AT 29 JANUARY 2017	UNAUDITED AS AT 31 JANUARY 2016	AUDITED AS AT 31 JULY 2016
(a) Capital commitments	$000	$000	$000
Capital expenditure contracted for at balance date but not recognised as liabilities is set out below:			
Within one year	5,258	7,677	12,666
(b) Operating lease commitments			
Commitments for minimum lease payments in relation to non-cancellable operating leases at balance date are as follows:			
Future minimum rentals payable			
0–1 Years	121,731	114,876	120,636
1–2 Years	109,032	104,932	111,731
2–5 Years	249,329	240,923	254,246
5+ Years	299,121	291,407	325,121
Total operating lease commitments	779,213	752,138	811,734

20. RELATED PARTIES

Except for Directors' fees, key executive remuneration and dividends paid by the Group to its Directors, there have been no other related party transactions during the period.

21. CONTINGENT LIABILITIES

The Group has no material contingent liabilities other than those arising in the normal course of business, primarily being letters of credit issued to secure future purchasing requirements and store lease commitments.

Independent Review Report

TO THE SHAREHOLDERS OF THE WAREHOUSE GROUP LIMITED

pwc

REPORT ON THE INTERIM FINANCIAL STATEMENTS

We have reviewed the accompanying financial statements of The Warehouse Group Limited ('the Company') on pages 7 to 19, which comprise the consolidated balance sheet as at 29 January 2017, and the consolidated income statement, consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the period ended on that date, and a summary of significant accounting policies and selected explanatory notes. The Group comprises the Company and the entities it controlled at 29 January 2017 or from time to time during the financial period.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors are responsible on behalf of the Company for the preparation and presentation of these financial statements in accordance with New Zealand Equivalent to International Accounting Standard 34 Interim Financial Reporting (NZ IAS 34) and for such internal controls as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

OUR RESPONSIBILITY

Our responsibility is to express a conclusion on the accompanying financial statements based on our review. We conducted our review in accordance with the New Zealand Standard on Review Engagements 2410 *Review of Financial Statements Performed by the Independent Auditor of the Entity* (NZ SRE 2410). NZ SRE 2410 requires us to conclude whether anything has come to our attention that causes us to believe that the financial statements, taken as a whole, are not prepared in all material respects, in accordance with NZ IAS 34. As the auditors of the Company, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements.

A review of financial statements in accordance with NZ SRE 2410 is a limited assurance engagement. The auditors perform procedures, primarily consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand) and International Standards on Auditing. Accordingly we do not express an audit opinion on these financial statements.

We are independent of the Group. Our firm carries out other services for the Group as providers of treasury advisory services and agreed upon procedures at the Annual General Meeting. The provision of these other services has not impaired our independence.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that these financial statements of the Group are not prepared, in all material respects, in accordance with NZ IAS 34.

RESTRICTION ON DISTRIBUTION OR USE

This report is made solely to the Company's Directors, as a body. Our review work has been undertaken so that we might state to the Company's Directors those matters which we are required to state to them in our review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Directors, as a body, for our review procedures, for this report, or for the conclusion we have formed.

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants, Auckland
8 March 2017

Directory

Board of Directors
Joan Withers (Chair)
Keith Smith (Deputy Chairman)
Sir Stephen Tindall
Tony Balfour
John Journee
James Ogden
Julia Raue
Vanessa Stoddart

Group Chief Executive Officer
Nick Grayston

Group Chief Financial Officer
Mark Yeoman

Company Secretary
Kerry Nickels

Place of Business
26 The Warehouse Way
Northcote, Auckland 0627
PO Box 33470, Takapuna
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Telephone: +64 9 489 7000
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Registered Office
C/– BDO
Level 4, 4 Graham Street
PO Box 2219
Auckland 1140, New Zealand

Auditor
PricewaterhouseCoopers
Private Bag 92162
Auckland 1142, New Zealand

Shareholder Enquiries

Shareholders with enquiries regarding share transactions, changes of address or dividend payments should contact the Share Registrar.

You can also manage your shareholding electronically by using Computershare's secure website, www.computershare.co.nz/investorcentre, whereby you can view your share balance, change your address, view payment and tax information, update your payment instructions and update your report options.

Share Registrar
Computershare Investor Services Limited
Level 2, 159 Hurstmere Road, Takapuna, Auckland 0622
Private Bag 92119, Auckland 1142
New Zealand
Telephone: +64 9 488 8777
Facsimile: +64 9 488 8787
Email: enquiry@computershare.co.nz
Website: www.computershare.co.nz/investorcentre

Direct Crediting of Dividends
To minimise the risk of fraud and misplacement of dividend cheques, shareholders are strongly recommended to have all payments made by way of direct credit to their nominated bank account in New Zealand or Australia.

Investor Relations
For investor relations enquiries, **email** investor@twgroup.co.nz

Stock Exchange Listing
NZSX trading code: WHS

Company Number
New Zealand Incorporation: AK/611207

Website
www.thewarehousegroup.co.nz

Sustainable Business Council
wbcsd New Zealand partner to the World Business Council for Sustainable Development

The company is a member of the Sustainable Business Council ("SBC").

The SBC is a coalition of leading businesses united by a shared commitment to sustainable development via the three pillars of: economic growth, ecological balance and social progress.
Its mission is to provide business leadership as a catalyst for change toward sustainable development and to promote eco-efficiency, innovation and responsible entrepreneurship.

CEMARS® ISO 14064-1 certified organisation

CEMARS® . A world-leading greenhouse gas (GHG) certification programme and the first to be accredited under ISO 14065. It ensures consistency of emissions measurement and reduction claims. CEMARS certification was developed at one of New Zealand's leading Crown Research Institutes, Landcare Research. It recognises and rewards the actions of businesses that measure their GHG emissions and puts in place strategies to reduce those emissions.

FTSE4Good

The Warehouse is a constituent company in the FTSE4Good Index Series.

The FTSE4Good Index Series has been designed to objectively measure the performance of companies that meet globally recognised corporate responsibility standards.

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