THE WAREHOUSE GROUP
2018 ANNUAL REPORT

TOWARDS INTEGRATED REPORTING

OUR GROUP PURPOSE

Helping Kiwis live better every day

We're on!

Contents

Each of our four retail brands has its own unique identity. This year we identified the values that we share and that unify us as a group. Our values light the path to our future, guiding our conversations and decisions today so we will deliver on our vision and purpose tomorrow. United by these values, we stand together as one.

OUR SHARED VALUES

Take the lead
Create the way
Be the experience
Here for good

Group highlights

12,000

employees in New Zealand

4.7 star

The Warehouse app rating on iTunes (rating at time of publication)

275%

revenue increase on The Warehouse app

50%

of customers shopped with two or more Group brands in FY18

Making the desirable affordable and the affordable desirable since 1982

24

EV chargers installed at The Warehouse stores, saving around 7,500kg of CO_2

200

bikes serviced each week at Torpedo7 stores

$5.3m

raised for communities in FY18

$63m

raised in donations for New Zealand since 1982

2m

people visited 251 stores every week

Chair's report

We're on plan

The Warehouse Group has delivered a solid adjusted Net Profit After Tax (NPAT) result of $59.0m for FY18, in what has been a significant year of change for the business.

We integrated separate business units into a more collaborative group, and invested in capabilities and world-class talent. We fundamentally changed our pricing strategy in the core Red Sheds, and embarked on a two-year transformation programme to accelerate our strategy of fixing the retail fundamentals and investing in our digital future.

In the context of this change, to deliver a profit result above guidance is very pleasing.

Financial results

The Group has reported a net profit attributable to shareholders for the year of $22.9m, which is an increase of 12.0% on last year's result of $20.4m. As the reported profit includes a number of one-off items, our normal practice is to also report an adjusted net profit number which reflects the underlying business performance, and this is the number around which we provide profit guidance to the market.

Our adjusted NPAT for FY18 is $59.0m, which is (13.4%) down on last year's $68.2m. This result was up on the market guidance of $50.0m–$53.0m that we issued at the half year, due to a stronger than expected finish to the financial year.

As indicated at the half year, the Group's Short Term Incentives (STI) schemes have been triggered in FY18. This represents an increase in cost year-on-year as the schemes were only partly triggered in FY17. If we normalise the result for the impact of the STI payments, the adjusted profit result would have increased 1.6% year on year.

In FY17 the material one-off impacts on our profit result were the sale of our Financial Services business, restructuring costs and some property sales. This year the one-off impacts relate to a write-down of the goodwill asset in Torpedo7 as the business takes longer to scale up, and restructuring costs associated with our transformation.

While there is still more work to be done, I'm heartened by the progress that has been made this year to ensure the Group is competitive and delivers sustainable profitability. We're on plan to improve EBIT, and I'm satisfied with our progress as we move closer towards our goal.

We have announced a final dividend of 6.0 cents per share, which totals to an overall dividend payment of 16.0 cents per share in FY18. This dividend payout is above our dividend policy and reflects the Board's confidence of the Group strategy. We will look to make further comments about the dividend policy at the ASM in November 2018.

Providing low prices for our customers, every day

The Board is pleased with the outcome of the completion of the transition to EDLP in The Warehouse.

The Warehouse has made the change to Every Day Low Price (EDLP) with a 2.5% reduction in sales and a 1.0% reduction in gross margin. The sales decline we're experiencing is in fact tapering during each quarter of the year, going from –5.2% in Q1 to –2.6% in Q2 and –1.2% in H2, giving us confidence that margins will continue to improve over the next three years, in line with our plan.

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JOAN WITHERS
Chair, The Warehouse Group

'We still have a long road ahead of us, but our confidence is strengthening as we see encouraging signs. FY18 has been about implementing and accelerating our plan, and we're on plan.'

JOAN WITHERS
Chair, The Warehouse Group

Facing into change

It's clear that we needed to reshape The Warehouse Group for the future. The decline of our recent earnings, the complexity of our operations, impending local and global competitive threats and changing customer expectations have necessitated radical change, and we are facing into that change head-on.

We've partnered with international experts to work alongside us as we transform our business, not to revisit our strategy but to improve our ability to execute change and deliver sustainable bottom-line results.

Together, we co-developed the framework for our transformation programme. Led by Chief Transformation Officer Scott Newton, 200 senior leaders across the business are rolling up their sleeves and delivering rapid initiatives to improve efficiency, reduce complexity and deliver cost improvement. The Board is looking forward to realising the significant benefits of that programme over the next 24 months and beyond.

Leading us forward

I'm incredibly energised by the leadership team that Group CEO Nick Grayston has assembled. They are extremely driven to achieve the outcomes we have set, and the commitment and dedication from the entire team is among the best I've seen.

In FY18 we welcomed three new members to the Executive Team and two members to the wider leadership team. Chief Marketing Officer Jonathan Waecker and Chief People Officer Evelyn Ross have joined the Group from US companies Yahoo and Foot Locker, respectively. We also made three local appointments, Scott Newton as Chief Transformation Officer, Jonathan Oram as Deputy Chief Financial Officer and Chris Foord as Chief Logistics Officer.

The Group has faced some criticism in our recruitment of offshore executive talent. The fact is, deep omnichannel retail experience is difficult to find, even in Australasia. If this business is to be successful in the face of international competition, we require people who have experienced that challenge, and we are excited about the progress we are making.

Governance

The Warehouse Group's Board is united in its support of the direction we are taking. We are acutely aware of our role in supporting the transformation programme and are adjusting our governance practices to help the business move faster and stay focused on our core strategy.

We are conscious of the need to ensure the skillset around the table is right for the future direction of the company and we are in the process of finalising a director appointment which will be both complementary to existing skills and experience and strategically relevant to the evolution of the business.

Sir Stephen Tindall has decided to take a further 12 months leave of absence from his directorship of The Warehouse Group due to his current workload which includes the hosting of the 2021 America's Cup in Auckland, his ongoing work with The Tindall Foundation and investment vehicle K1W1 and involvement in some of his larger investments including Lanzatech and Rocket Lab. Robbie Tindall will continue to act as his alternate on The Warehouse Group board.

We have changed the structure of some of our committees, reviewed and clarified some of our policies and updated our documentation to ensure that we are fit for purpose for the challenges ahead. The Corporate Governance and Nominations Committee now has responsibility for Board appointments and selection, and we have introduced a separate Health, Safety and Wellbeing Committee, of which all Directors are members.

Given the competitive landscape and the period of rapid change the organisation is undergoing, the traditional cadence of Board deliberations may not be suitable. However, the Board is responding quickly to business issues and opportunities, while providing appropriate levels of oversight.

Investing in our digital future

In addition to delivering our transformation programme, transitioning to EDLP, and realising the benefits of business integration, we are also making progress on our digital future. We have invested in digital capability and systems this year, and have started to build our omnichannel ecosystem that will help Kiwis live their lives better.

Continuing our journey

We still have a long road ahead of us, but our confidence is strengthening as we see encouraging signs. FY18 has been about implementing and accelerating our plan, and we're on plan.

As previously mentioned, we have activated incentive payments. This was in recognition of the performance this year, the management of significant downside risk in the move to EDLP, and the change programme being delivered to schedule. Incentives are an important part of attracting and retaining the high-level talent required to execute our transformation. Our business operates a reward structure that goes much deeper within the organisation than is the case in many other companies.

I want to especially thank the employees of The Warehouse Group. Your contribution in what has been a big year of change is very much appreciated. It is your spirit and dedication to our organisation and customers that is making the difference. I would also like to thank my fellow directors for their dedication to their responsibilities and for the support they have given me.

On behalf of the Board, I also want to thank all our shareholders for your continued support as we continue to change for the better – for our company, and for all New Zealanders.

Joan Withers
Chair

Our Board (from left to right):
Robbie Tindall, Julia Raue, Keith Smith, John Journee, Tony Balfour, Vena Crawley and Joan Withers (Chair).

Our Board

Board bios available at: www.thewarehousegroup.co.nz/about-us/board-directors

Joan Withers

MBA CFinstD
Chair & Independent
Non-Executive Director

Joan believes The Warehouse Group is New Zealand's greatest retail company with a fundamentally important role to play in New Zealand society. You will often see Joan in the Red Sheds but as a self-confessed tech geek, there is always something exciting to discover at Noel Leeming Group, especially innovations such as Alexa and Sonos. In her spare time Joan enjoys horse riding, spending time with family and creating fashion garments on her knitting machine.

INTERNAL
- Audit and Risk Committee
- Disclosure Committee
- Corporate Governance and Nominations Committee
- People and Remuneration Committee
- Health, Safety and Wellbeing Committee

OTHER DIRECTORSHIPS
- Mercury NZ Limited (Chair)
- ANZ NZ Limited
- Louise Perkins Foundation

Keith Smith

BCom, FCA
Deputy Chair & Independent
Non-Executive Director

Keith likes the variety The Warehouse Group has to offer and shopping at The Warehouse and Noel Leeming stores has proved very beneficial having just moved to a new property. When he is not working we will find Keith out on the water enjoying his favourite pastime of fishing.

INTERNAL
- Disclosure Committee (Chair)
- Corporate Governance and Nominations Committee
- Audit and Risk Committee (Chair)
- People and Remuneration Committee
- Health, Safety and Wellbeing Committee

OTHER DIRECTORSHIPS
- Goodman NZ Limited (Chair)
- Mercury NZ Limited
- Westland Co-Operative Dairy Company Limited

Julia Raue

CMinstD, GAICD
Independent
Non-Executive Director

Julia's family shop regularly at The Warehouse, Noel Leeming and Torpedo7. Her youngest daughter loves a trip to The Warehouse, where they shop for clothing, gifts, books and toys. Julia also shops at Noel Leeming for technology-related items as well as whiteware, and they buy the majority of their sporting goods at Torpedo7.

When time permits you will likely find Julia walking, geocaching, reading or cooking. As a family, they love to travel.

INTERNAL
- Health, Safety and Wellbeing Committee (Chair)
- Audit and Risk Committee

OTHER DIRECTORSHIPS
- Z Energy Limited and Subsidiaries
- Television New Zealand Limited
- Southern Cross Health Society
- Jade Software Corporation Limited
- Member, Risk and Audit Committee of the Treasury

Robbie Tindall

BA, BSc
Non-Executive Director

Robbie and his family find themselves shopping in one of the Group's stores on a weekly basis, The Warehouse being the store most visited. Robbie enjoys coaching water polo, cycling to the beach with the family and, when time allows, playing football or going to the movies.

INTERNAL

- Corporate Governance and Nominations Committee
- People and Remuneration Committee
- Health, Safety and Wellbeing Committee

OTHER DIRECTORSHIPS

- K One W One Limited
- The Tindall Foundation
- Franklin Smith Limited
- Foundation Services Limited

John Journee

BCom, CMinstD, MAICD
Independent
Non-Executive Director

You will often find John in a Noel Leeming store as he is a sucker for new 'tech' and Noel Leeming provides reliable expert advice to help him navigate the constant stream of the latest 'must have' temptations!

John and his wife are avid travellers, which provides ample and varied opportunities to explore his other interests of wine, food, culture and history.

INTERNAL

- Audit and Risk Committee
- Health, Safety and Wellbeing Committee

OTHER DIRECTORSHIPS

- Max Fashions Limited (Chair)
- Vanishing Point Ltd/Holdings

Antony (Tony) Balfour

BCom
Independent Non-Executive Director

With two active teenagers, Tony's family constantly find themselves in Noel Leeming and Torpedo7 on weekends – be it for some piece of 'essential' technology or new merino base layer. Tony's 13-year-old son loves the new skate/street-inspired apparel range at The Warehouse and would like to own every piece given the chance. Tony loves the outdoors and can often be seen running, biking or on the ski field. He is also on the board of the local high school.

INTERNAL

- People and Remuneration Committee (Chair)
- Health, Safety and Wellbeing Committee
- Corporate Governance and Nominations Committee

OTHER DIRECTORSHIPS

- Silver Fern Farms Co-operative Limited
- Les Mills International Limited
- Real Journeys Limited
- Mt Difficulty Wines Limited

Vena Crawley

MBA, BA
Non-voting Director, part of the Future Directors Programme

With two young kids the Crawley family are regular visitors at The Warehouse's toy section. Gifts for family and friends are often created at Warehouse Stationery – you name it, if he can personalise it, Vena is onto it! Once he's finished family adventures with gear from Torpedo7, Vena loves to hand-write letters and cards for the elderly at aged-care homes.

INTERNAL

- In his role as Future Director, Vena can be a non-voting attendee to the various committees

OTHER DIRECTORSHIPS

- Electricity Retailers Association of NZ (ERANZ)
- Auckland University of Technology (AUT) – Advisory Board Member

CEO's report

‘We are fortunate to have the existing benefits of scale and deep brand affinity with New Zealanders as a foundation on which to build our digital future. How we leverage these advantages to best serve our customers is now our critical opportunity.’

NICK GRAYSTON
CEO, The Warehouse Group

Report from the CEO
(turn over)

Our way forward

The year ended 29 July 2018 has been a challenging one. Major change is always difficult for an organisation of our size, but the fact that we have begun to reposition the company is a material step forward for the future of this business.

We began a transformation programme to accelerate our strategy and improve our business processes and management disciplines, and we made a major change to The Warehouse with the transition from a Hi-Lo pricing model to Every Day Low Pricing (EDLP). We continued to integrate our operations across the Group and have started to see the benefits from that change. We also improved our direct sourcing capability and expanded our international operations to help provide better products at better prices for our customers.

The Warehouse Group remains a profitable company that creates significant value for New Zealand. We are cash generative, a major employer and a contributor to our country through our corporate citizenship activities.

I am proud of the hard work our people have put in to achieve the results for FY18, particularly given the difficult context of the year. I'm also satisfied that we are completing the groundwork to overcome impending competitive challenges.

Competitive landscape

Each year sees new and stronger competitive challenges to our business and 2018 is no exception. Amazon arrived in Australia, offering a broader selection of categories than in any other launch country. While their arrival doesn't yet appear to have had significant impact, it would be unwise to underestimate their long-term potential in Australasia. However, it's not just Amazon that we need to be mindful of, other international e-commerce players are present in the New Zealand market, and traditional retail competitors such as Kmart are expanding their store footprint in this country, along with best-in-class international apparel retailers Zara and H&M.

We are highly focused on being able to resist those threats successfully. It's clear that omnichannel retailing is now the dominant form. As a legacy retailer with a comprehensive store footprint, we have an advantage–but not automatic success–within an omnichannel environment.

We are fortunate to have the existing benefits of scale and deep brand affinity with New Zealanders as a foundation on which to build our digital future. How we leverage these advantages to best serve our customers is now our critical opportunity. We must continue to get better at what we do, putting customer experience at the forefront of all of our channels and ensuring we are guided by more sophisticated data, insights and capabilities.

Our brand performance

The Warehouse's transition to EDLP has gone well and we are pleased that sales declined less than expected and customers responded positively to the clarity of our offer. We saw a 6.6% lift in unit volume across the year. During this time, we curated our product range, simplifying our portfolio of private-label brands from 136 to 30, and reduced the number of overall product SKUs by 9.8%.

KEY HIGHLIGHTS

7.4%

Online sales percentage of total sales. Up 6.6% on last year

No.1

Warehouse Stationery No.1 in Back to school products

8.6%

↑ Noel Leeming annual revenue growth in FY18

‘Noel Leeming has had a standout year. Operating profit increased by 61.8% from the previous year to $31.2m in FY18’

NICK GRAYSTON

CEO, The Warehouse Group

Revenue for **The Warehouse** decreased by 2.5% to $1.7b in FY18 and the retail operating margin reduced 0.6% from 4.8% to 4.2%. The drop in revenue was anticipated in response to the transition to EDLP. Although sales dropped, units sold increased and we are pleased with the lift in gross margin from 36.8% to 37.4%.

The grocery and apparel categories in The Warehouse have performed particularly well. Sales of affordable essentials in grocery have increased with a 14.0% uplift, showing that customers are responding well to the change.

In apparel, a warm summer led to excellent performance in seasonal categories. We experienced significant gross profit improvements because of a reduction in clearance.

There is still more work to be done in terms of refining prices, product range and assortment. But we have a solid base to tweak and improve on. We are also testing some new store formats, prioritising floor space to improve profitability and customer experience, and emphasising the enhanced quality and value to customers under EDLP.

Most of our private-label products in The Warehouse are designed by New Zealand designers at our Store Support Office in Northcote, Auckland. In FY18 we accelerated our direct sourcing model to reduce costs, improve the quality and speed to market of our products, and to ensure our ethical sourcing practices are adhered to.

While we continue to operate in China, India and Bangladesh are emerging as global powerhouses in the production of apparel and soft home goods. We recently expanded our operations into India. We began trading there in July 2017 and officially opened a sourcing office in New Delhi in February 2018.

A real highlight of FY18 has been **Noel Leeming's** performance. It has had what can only be described as a standout year. It continues to benefit from advantages of scale, both in terms of volume and store footprint, and the expertise offered through the assisted sales model. The business has delivered revenue growth of 8.6% to $880.5m in FY18. Operating profit rose by 61.8% to $31.2m in FY18 and operating margins increased from 2.4% in FY17 to 3.5% in FY18.

The first half set the platform for the year with solid trading results across both the retail and commercial divisions. The commercial division has performed well with sales up 10.5%; however, we still see room for growth.

The investment we made in the Noel Leeming Tech Solutions business back in FY15 and FY16 is starting to pay off. Services now make up 2.7% of all sales, up from 2.5% in FY17, and we expect this growth to continue. This was a very purposeful strategy that has been well-executed.

In July we announced the purchase of the key assets of the Appliance Shed, offering a larger store footprint to provide clearance goods and to help meet the customer demand seen at our expanded Penrose clearance store. Three Appliance Shed sites in Auckland will transition to Noel Leeming Clearance Centres and a fourth to a Torpedo7 store.

In contrast, **Warehouse Stationery** has had a poor year by its own high standards. The weaker result for FY18 was due to internal systems integration issues and an industry segment that is facing challenges as a result of changes in customer buying behaviour.

Revenue for Warehouse Stationery fell 5.2% from the previous year to $263.8m in FY18. The business experienced a decrease in operating profit from $15.7m to $10.6m in FY18, with the corresponding operating margins reducing from 5.7% to 4.0% in FY18.

The first half of the year was particularly challenging and saw a 7.1% decline in sales on H1 FY17. The operational integration of The Warehouse and Warehouse Stationery resulted in some internal systems and process challenges that impacted the availability of products in store, and significant time and resource was spent rectifying these issues.

However, this was completed in time for a successful Back to School period which saw Warehouse Stationery retain its position as number one in market share and customer service. As we continued the year we reduced our sales deficit to 5.3% decline in Q4.

While sales declined, margin improved–particularly in Q4, by 1.4%. This demonstrates that profitability for the business is in line with our expectations.

We are acutely aware of challenges in the stationery market globally, including

'The commitment and dedication of the executive leadership team is among the best I've seen.'

JOAN WITHERS
Chair, The Warehouse Group

the acceleration of the decline in heritage categories such as paper and manual-based office supplies, and the need to reposition the business ahead of structural changes in the industry.

We have been through a specific exercise to address both category and systems issues and develop a strategy for the future. This includes refocusing dedicated resource to the stationery business and a plan to continue to grow shoulder categories and the existing B2B market.

Torpedo7 had a disappointing year also but for different reasons. While revenue increased 3.6% to $163.4m, it made an operating loss of $1.4m because of ongoing challenges with a sub-scale operation and internal disruption connected with relocating parts of the business operations.

This year we recorded an impairment of the goodwill relating to Torpedo7 of $25.6m.

The integration of Torpedo7 into Noel Leeming management showed us the extent of the work we need to do to scale up from a niche offering to becoming a serious retailer. We recognise that developing capability, rebuilding processes and addressing stock issues will take time.

While it has been a difficult year for Torpedo7, it has also been a good opportunity to reset the foundation for the business. In FY19 we have confirmed the roll out of four additional Torpedo7 stores, bringing the total number of stores to 18, with additional stores in the pipeline. Torpedo7 stores are relatively profit-neutral in the first year, so the opportunity is significant, but it will take time to achieve scale. FY19 will be focused on establishing brand clarity, getting our inventory right and scaling the business, both physically and online, and we expect to be operating from a strong foundation by FY20.

Torpedo7 has a secondary brand in No. 1 Fitness, which currently has one store in Christchurch. In FY19 we will integrate No. 1 Fitness into Torpedo7 and retire the brand to reduce complexity.

Group online sales were $221.1m, up 6.6% compared to the same period last year. Online as a percentage of total sales finished the year at 7.4% compared to 7.0% in the same period in FY17.

Investing in our digital future

While we are focused on fixing the retail fundamentals through our transformation programme as our priority, we are also investing in our digital future to get ahead of the curve. An efficient and frictionless e-commerce offering is no longer a differentiator. In FY18 we boosted our digital capability and established a world-class team, and did a considerable amount of work to bring our core IT infrastructure up to standard. In FY19 we will continue to invest in building a competent fulfilment capability and improving our infrastructure, systems and supply chain and distribution processes, setting the foundation for our future.

Focusing on our core business

In FY18 we completed the transition of The Warehouse Group Financial Services division to Finance Now, enabling us to free up capital and focus on our core business. It has a been a smooth transition with negligible impact on our customers, and we are fortunate to have good partners in Finance Now and SBS Bank. The nature of the financial services business meant that it required significant operating capital and the decision to divest has given us capacity to make the investments that support our strategy. Our planned investments can be funded through our existing capital envelope.

Leveraging our scale as a group

We are now able to capitalise on our scale as a group and reduce duplication with one Information Technology, People Support, Finance, Logistics and Marketing team. We are already realising the benefits of this new model. For example, in FY18 and through FY19 we will make a significant investment in a new Warehouse Management System that will improve our fulfilment and delivery capability across all brands. This will enable efficiencies that will save around $5.4m per year from FY20.

We appointed a single media buyer to serve all brands in the Group, replacing seven media and planning agency relationships. Similarly, we have appointed one domestic logistics partner in Toll New Zealand, which will be providing all store delivery services across all the brands from FY19.

Our transformation

Earlier this year we started our group-wide transformation programme focused on fixing the retail fundamentals and improving our financial performance. It began with

Left to right:
Tania Benyon, CEO Group Sourcing Support; Pejman Okhovat, CEO The Warehouse and Warehouse Stationery; Mark Yeoman, Chief Operating Officer and Chief Financial Officer; Nick Grayston, Group Chief Executive Officer; Tim Edwards, CEO Noel Leeming and Torpedo7 Group; Scott Newton, Chief Transformation Officer; Evelyn Ross, Chief People Officer; Jonathan Waecker, Chief Marketing Officer.

an independent assessment of the Group, which helped to quantify the opportunity for focused performance improvement. It was then followed by a process of idea generation with input across the entire business. Ideas were then distilled to 250 initiatives, which are now being implemented by our own teams. Although it's early days, we're already seeing success with a number of initiatives delivering value, increased engagement and collaboration across the Group.

While our transformation has components related to technology investment, it is mostly about fixing our business processes and improving management disciplines. We share more information about our transformation on pages 24–27.

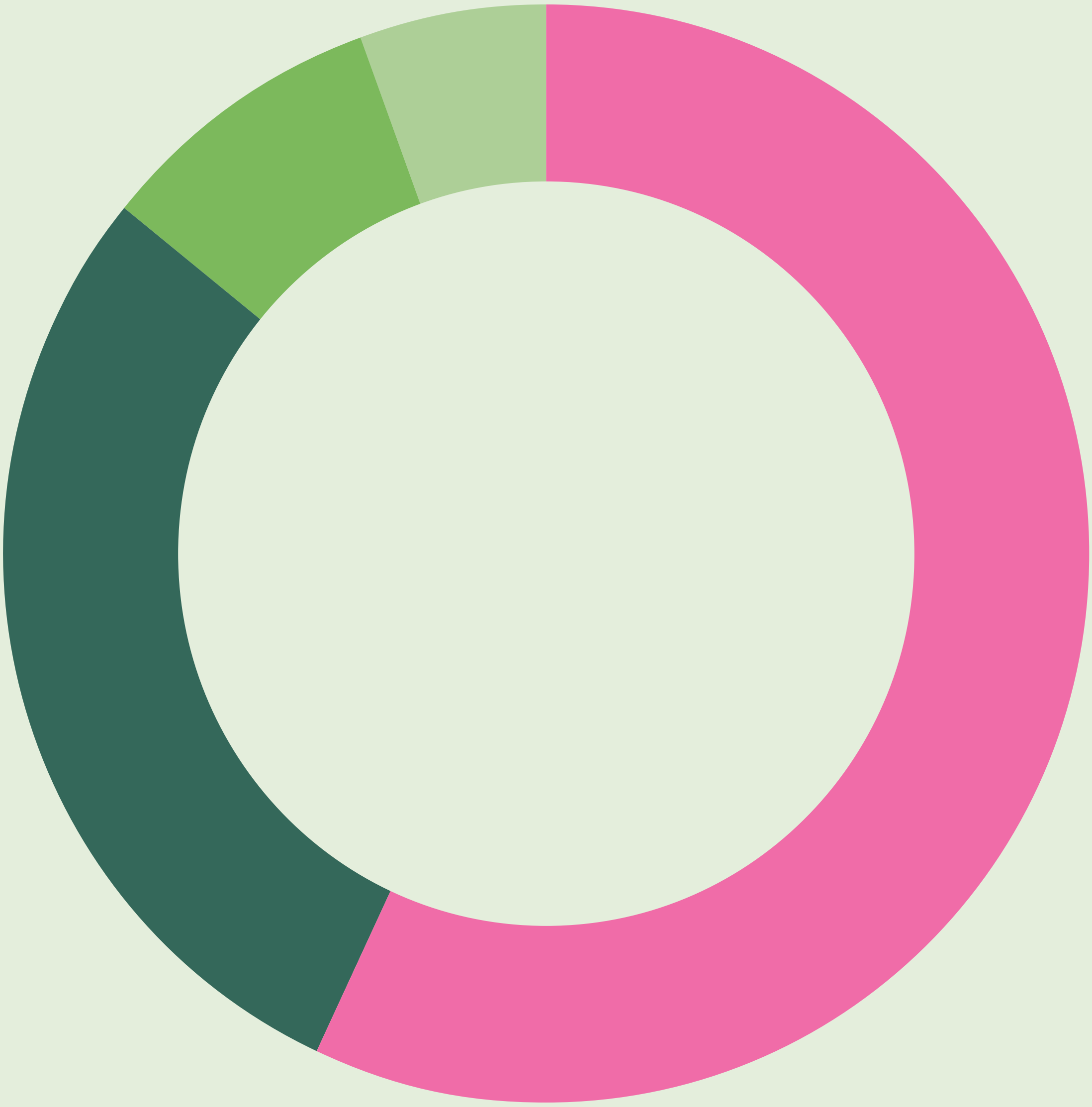
We're on for the future

Ultimately, retail is still about two things – people and product. Having the right product and serving people how they want to be served, whether that's in a store or on a mobile device is key, together with the right customer service. We're working hard on improving these elements so we can deliver to our purpose of helping Kiwis live better every day.

FY18 has been a huge year of change for our company, and while there is still more work to be done, I'm pleased that we're on plan. We have entered FY19 with momentum behind our strategy to deliver a strong and sustainable future for our organisation. This is due to the efforts of our people and I want to thank each one of our team members for their contribution. Together, we're writing this story for the future of The Warehouse Group.

Nick Grayston
Group Chief Executive Officer

Sales by brand



56.8% The Warehouse | **29.1%** Noel Leeming | **8.7%** Warehouse Stationery | **5.4%** Torpedo7

Financial highlights

Total sales	Gross profit	NPAT	Online sales % of total sales
$3.0b	$991.2m	$22.9m	7.4%
↑ 0.5%	↑ 2.0%	↑ 12.0%	↑ 6.6%
Group transactions	**EBIT**	**Dividend**	**Net debt**
63m	$57.3m	16cps	$162.3m
↑ 3.0%	↓ 46.6%	no change	↓ 25.6%

Other highlights

Moved to EDLP (Every Day Low Prices) in Red

9.8%

SKU reduction from EDLP

$5.0m

reduction in Marketing spend from EDLP

17%

growth in Noel Leeming Services

6

new Group stores opened in FY18

Plus 3 Blue stores into Red

1

The Warehouse

2

Noel Leeming

3

Torpedo7

80%

of New Zealanders shop with a Group brand at least once a year

Our strategy

Helping Kiwis live better every day

OUR STRATEGY

Fixing the retail fundamentals

Invest in the digital future

OUR ENABLERS

Page 24

250+ Initiatives

Transformation

Culture Change

Technology and Culture

Modernise IT

Shared values

Take the lead | Create the way | Be the experience | Here for good

Our evolution

TIMELINE

1982
First The Warehouse store opens

1991
First Warehouse Stationery store opens

1994
NZX: Listed on the NZ Stock Exchange

1996
First purpose built distribution centre opens

BRAND POSITIONING

General merchandise, apparel, homeware, garden, electronics and gaming

Office products, stationery and technology

Where everyone gets a bargain, every day

Work, Study, Create, Connect

BRAND HIGHLIGHTS

Over 7,000 team members

93 stores with annual sales of 1.7b Over 500,000m² of retail space and over 25,000 SKUs

Busiest day of the year is Christmas Eve

We employ approximately 1,000 team members

70 stores with annual sales of $263.8m Over 71,000m² of retail space housing 9,000 SKUs

Busiest period is Back to School

FY18 REVENUE SPLIT BY BRAND

$1.7b

ON AVERAGE, 1.5M CUSTOMERS A WEEK

$263.8m

ON AVERAGE, 230,000 CUSTOMERS A WEEK

2009
The Warehouse online shopping launched

2014
The Warehouse Group acquires Schooltex and R&R Sport

2017
India Sourcing Office opened

2004
Shanghai Representative Office (SRO) is set up

2013
The Warehouse Group acquires Noel Leeming Group and Torpedo7 Group

2014
The Warehouse launches its first mobile shopping app

2017
First Warehouse Stationery Ltd store opened within The Warehouse store

Technology and appliances

The authority in appliances, technology and services for retail and commercial customers

Over 1,600 team members

74 stores with annual sales of $880.5m Over 76,000m² of retail space housing 4,100 SKUs

Busiest period is Boxing Day

$880.5m

ON AVERAGE, 279,000 CUSTOMERS A WEEK

Outdoor adventure gear and fitness gear

See you out there

We employ approximately 400 team members

14 stores over 19,000m² and online retails for No.1 Fitness and 1-day

Busiest periods are winter and summer

$163.4m

ON AVERAGE, 14,000 CUSTOMERS A WEEK

Our transformation

We're six months into our transformation so we sat down with Scott Newton, our Chief Transformation Officer, to discuss what we've achieved so far and what we're looking forward to.

Scott joined The Warehouse Group in February 2018. He has an extensive track record in driving transformational change across several New Zealand and global businesses.

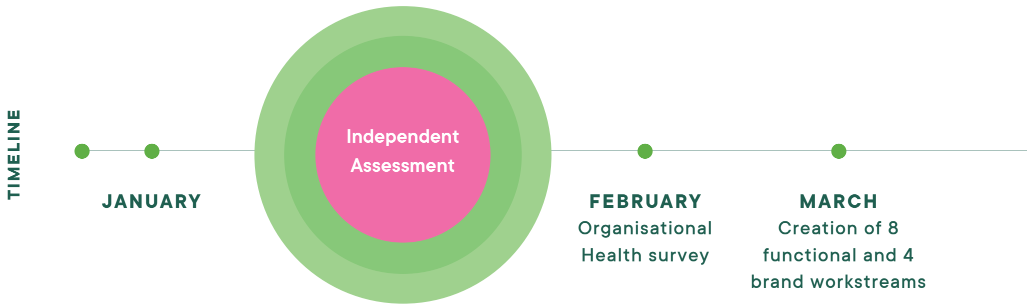
What's the transformation overview?

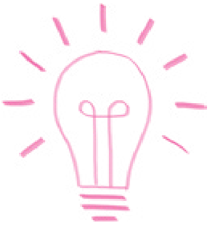
Our transformation started in February 2017 when we made the decision to move to a shared services model across the Group and merge the operations of The Warehouse and Warehouse Stationery, and Noel Leeming with Torpedo7. This was quickly followed by our adoption of an Every Day Low Price (EDLP) pricing strategy in our Red Sheds, a significant change for the business and our customers.

To improve our ability to execute change across the business, and support our multi-year transformation, we engaged external transformation partners in late 2017. Our transformation partners performed an independent assessment of the potential of the Group, and quantified the opportunity for focused performance improvement. Then, we involved more than 200 staff from across the Group in a ten-week ideation process to develop initiatives that would build on the changes which were already in flight. From June 2018, our transformation has focused on implementation. We've started to drive the delivery of the plans that we committed to.

What are we focused on?

Performance wise we are focused on lifting Group EBIT from 3.6% to 7.0%. To achieve this growth in earnings, we have created over 250 detailed initiatives which are being actively worked on across 12 workstreams. We are also focused on incorporating an 'owner's mindset', having a high-performance culture and building capability in our people to ensure that these changes are sustainable.





1,000+

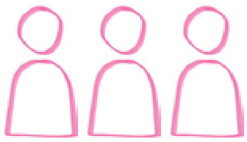
ideas generated and distilled

250+

initiatives actively worked

↑ EBIT

Improving Group EBIT



Culture

Building a sustainable and high-performance culture

Our transformation has a good balance between both growth and cost focused initiatives. Growth initiatives typically take longer for the benefits to ramp-up, whereas, cost derived initiates provide the ability to unlock value much faster.

Collectively, we have committed to a plan for what we can realise in incremental earnings going into FY20. Internally we refer to this as our 'bankable plan'. This plan was unanimously supported and signed off by our Senior Executive Team.

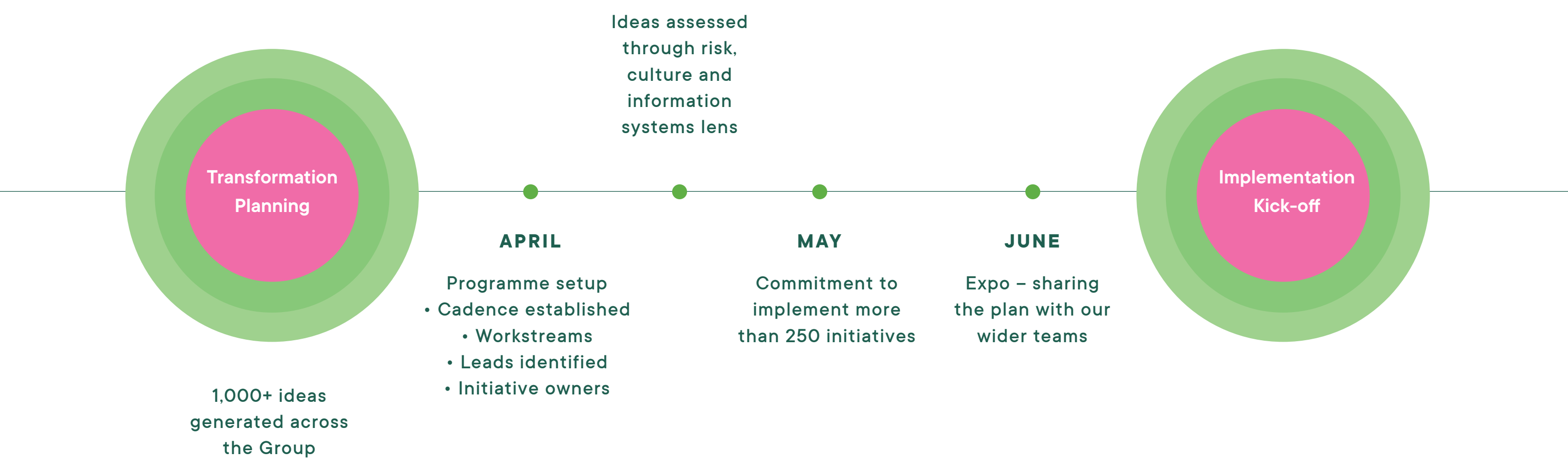
What are the key areas of work and how did they come about?

Our transformation is focused on fixing the retail fundamentals. All areas of the business are in scope for performance improvement. During the independent assessment conducted by our transformation partners, and in our planning sessions, we looked at the key value drivers of our business and formed 12 workstreams–eight of these are functional and four are brand orientated.

The eight functional workstreams are grouped into key areas. One key area is 'trade', which includes the customer-facing areas such as store performance, merchandise, and logistics. Another key area is 'non-trade', which focuses on central procurement and capital. Both our trade and non-trade functions are supported by 'central' functions, which incorporates our people-support functional area. The central functions workstream looks to optimise organisational design across The Warehouse Group and assesses whether we have the right people with the right tools, skills and capabilities to support the delivery of our transformation. Supporting both trade and non-trade areas are our 'enabling' workstreams. These workstreams include information systems and culture. Both the information systems and culture workstreams are embedded within all the areas of our transformation.

What's the most important aspect of the transformation?

The most important aspect of the transformation is the how, or the culture piece. We are focused on embedding a change in mindset and way of working so that we think and act differently. It is also important for us to ensure that the change is sustainable. We recently launched our new group values of being 'on'. We're on for New Zealand, on for our customers, employees, shareholders and our communities. These new group values unify our



individual brand values and allow us to speak the same language.

What are the key challenges?

Speed of decision-making can slow progress and frustrate initiative owners. We have established a weekly cadence around our workstreams and this provides the opportunity for workstream leads and initiative owners to ask for the support needed.

There can be workload tension balancing our 'day job' against our transformation initiatives. This is typical during the beginning of a transformation and can take more than six months before the two come together as one set of priorities.

Capability can be a challenge when embarking on major transformations. Now that we have developed detailed plans with clear milestones, KPIs and benefits for each initiative, we can track progress on a weekly basis. And because of these plans, we have an opportunity to address emerging capability gaps.

We have created a programme for our people to support their 'ability to execute' (A2E). A2E is a two-day programme for our Store Support Office, Regional Managers and Store Managers. The course focuses on developing skills in areas such as influencing, having courageous conversations and providing feedback.

We are also investing in building capability in specific areas such as contract negotiation, pricing optimisation, and data analytics. Here, we are drawing on the global expertise of our transformation partners.

What are you looking forward to in the next six months?

Ensuring that the initiatives that we have developed start delivering the benefits that they promised; supporting our workstream leads and initiative owners to think bigger, faster; and actively problem solving with the team to drive value creation.

I see my role as the 'agitator', to face into what people don't want to talk about and support delivery but also look to accelerate our plans.

I am also looking forward to seeing the business adopt the 'owner's mindset' and see this come alive across the business. The owner's mindset means being truly accountable, recognising that delivering results to our bottom line is the ultimate measure of success, and that the cost of delay is real. We teach how to adopt an owner's mindset in our A2E course and to date, we have around 1,500 team members participating in the course.

What is the mood within the Transformation Office?

Cautious, but happy with the progress to date. We have great partners that, like us, truly care about making kiwi's lives better and are helping to ensure the longevity of our core business.

We have all the ingredients that we need to successfully transform and we're starting to see the 'unlock' happening in the business. Typically, it takes about six months into implementation to see the benefits materialise. Once the benefits are visible and celebrated, the progress in and of itself builds momentum and people start to see the transformation as a way of getting things done much faster than they could previously.

Why should I believe in this transformation?

Our transformation isn't about finding a magic 'single fix' solution. It is about lifting our performance around basic retail disciplines, with our customers at

We're on!

TRANSFORMATION ONGOING (2 YEARS)

JULY
Ideas Bot launched (Group-wide ideas channel where everyone is able to submit ideas)

Negotiation Factory Workshops

Ability to Execute (A2E) (high-performance and capability training programme)

JULY
New group values launched

Store and Distribution Centre expos

→

the centre of everything we do.

I can't make you believe in it, but I can tell you why I believe in it. Having seen The Warehouse open in 1982, it's exciting to see what it's become over the last 36 years. The growth has transitioned from explosive to incremental and now we have reached critical mass across our brands. It's time for us to mature and begin to realise the benefits of scale, efficiency and sustainable growth. That's why I believe in the transformation and see the potential that's in front of us.

There is no more interesting time to be in retail. We have an opportunity where the ground is going to continue to shift significantly over the next decade in this industry and I want to be part of helping shape the future and ensuring that the Group's legacy continues.

I want to be part of this chapter and the next chapter of what it means to be The Warehouse Group.

Our transformation workstreams

Functional Workstreams

Store performance

Merchandise

Logistics

Non-trade spend

Central functions

Capital

Information system

Culture

Enablers

Our move to EDLP

The big reset

This year The Warehouse moved to Every Day Low Prices (EDLP) and away from a Hi-Lo pricing model. The new retail landscape of mobile commerce, big data and the rise of omnichannel retailing has meaningfully changed the environment in which we do business and requires an overhaul of the way in which we operate.

EDLP is a stronger and more future-focused retail pricing strategy in the digital era, and it allows us to remain competitive in a continuously changing environment. We observed that globally retailers trading under a Hi-Lo model were failing in the face of developing online pure play competition from the likes of Amazon, eBay and Alibaba. With greater price and information transparency, consumers all over the world are becoming more informed on price and range, and know what a genuine discount looks like.

The Warehouse's move to EDLP was, in part, a customer-driven change intended to resolve questions over price accuracy, which was a major customer pain point. The move has allowed The Warehouse to be more transparent, have greater clarity in offer, as well as provide dynamic and personalised pricing and promotions. It streamlines our business to become even more honest with our customers.

Unlike Hi-Lo, EDLP does not use frequent promotional activity to drive sales. This typically results in a reduction in marketing spend and store labour because having fewer promotions translates to less advertising and less manual re-handling of goods.

We saw a positive customer response as we entered our first Christmas and summer under EDLP. Most notably, our toy category was a top performer, breaking all its own records in sales. More recently, the Big Toy Month event in stores performed exceptionally well also, with the average basket of toys up 6.0% driven by a higher average selling price.

It can be expensive for retailers to switch pricing strategies; however, we are happy with our performance to date. Based on what we've seen from retailers offshore, there was a real risk of experiencing a material sales decline and the transition negatively impacting our financial performance.

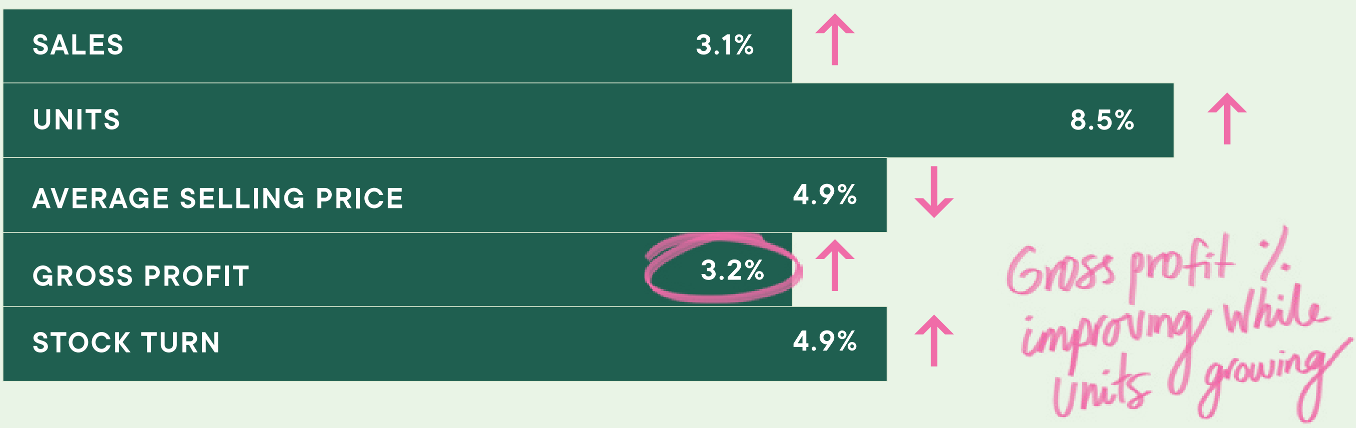
As we moved into the world of EDLP we expected a sales decline, due to a reduction in average selling price but knowing this would be offset by an increase in volume sold. Our plan was to improve margin in year one with the goal to achieve significantly better margins over the next three.

In FY18, sales in The Warehouse were down 2.5% and gross margin down 1.0%. While we experienced some impact from the clearance of goods related to range curation, we were successful in mitigating losses through timing of promotions and optimising clearance prices.

One thing we were particularly focused on maintaining was our price perception during the transition to

A case study on Childrenswear

FROM HI-LO TO EDLP



Our foot traffic continues to be strong in stores and we observed a 2.2% increase in transactions.

EDLP. Based on customer feedback we believe we are still the strongest in the market on price perception. Since price is held constant rather than relying on promotional activity to drive foot traffic, a challenge under EDLP is generating and maintaining high foot traffic. Our foot traffic continues to be strong in stores and we observed a 2.2% increase in transactions.

Aligned to a EDLP pricing strategy is the need to focus on product range, design and availability to hit the value-for-money sweet spot. Moving to direct sourcing has been part of the success of EDLP as we change how we source and what we control. We now supply over two-thirds of products sold in The Warehouse through our private-label programme with many designed in New Zealand. We have increased our capability in this area and will continue to make investment into the way we design, plan and source.

In June 2017 last year we held a suppliers' conference to keep our partners informed, and we met with suppliers individually to answer questions regarding our shift to EDLP. By Christmas, 98.0% of our supplier network transitioned to our new way of working.

Another change that EDLP brings is the impact on trading patterns. We're getting used to the new trading cycle and experienced nominal variance against our plan compared with FY17. Overall, our weekly volumes are higher under EDLP than Hi-Lo. In total, volumes increased by 7.9%, which was helped through an increase in average basket size of 5.7%.

Under EDLP we also improved our level of productivity. We achieved store labour savings by reducing the level of re-pricing needed for promotions. Approximate labour savings through greater productivity under EDLP is $1.6m. Looking forward, we expect to see further savings on store labour as we did incur one-off re-pricing costs as a result of our transition. We also realised $5.0m cost savings in marketing due to a reduction in promotional mailers. During the post-EDLP range reduction period, stock was cleared at higher margins than historically, and the overall SKU count reduced by 9.8%. From an operations perspective, we've adjusted well to the significantly higher volumes going through our Distribution Centres. We experienced a 9.0% unit increase in volumes handled.

This year has been a foundation year for The Warehouse to make the changes required to achieve long-term growth. Our focus for FY19 is to further refine our operating model and continue delivering the benefits of EDLP.

	WAREHOUSING Volumes handled	**SALES CYCLE** Full price	**SALES CYCLE** Clearance
HI-LO	6.4m	92.3%	7.7%
EDLP	6.9m ↑	93.5% ↑	6.5% ↓

OTHER SAVINGS UNDER EDLP

Labour savings (The Warehouse)

1.6m ◀ Reduction in re-pricing for promotions

Marketing savings (The Warehouse)

5.0m ◀ Reduction in promotional mailers and advertising spend

Towards integrated reporting

Measuring what matters

This year we have prepared our report using the integrated reporting framework, as a signal of the direction that we are headed as we transform the business for the future.

Value for The Warehouse Group is more than numbers on a spreadsheet. That's why we like the idea of integrated reporting, as it shows that there are more dimensions to value that are important to us and our stakeholders. We have not moved formally into the integrated reporting world; first we are embedding the principles of integrated thinking through the business so that the reporting step comes as a natural extension of what we do.

How we create value

The principal business of The Warehouse Group is retailing. While most of our business is product related, there is a rapidly-growing services component of our offer, primarily around the technology offerings through our Warehouse Stationery and our Noel Leeming businesses.

From a market segment perspective, our business is principally aimed at consumers; however, Warehouse Stationery has a strong presence in the small-to-medium-sized business segment, and our Noel Leeming business has a sizeable commercial customer portfolio.

In core retail, we add value through providing customers with access, choice, quality, value for money and services to ensure that our brands and channels are preferred by customers. The process of adding value starts with understanding our market. We pride ourselves on the insights and knowledge that the brands have built in understanding our customers within the local market. We believe this understanding helps us to create value in targeting the product and market fit, and reduces inventory risk inherent in the business.

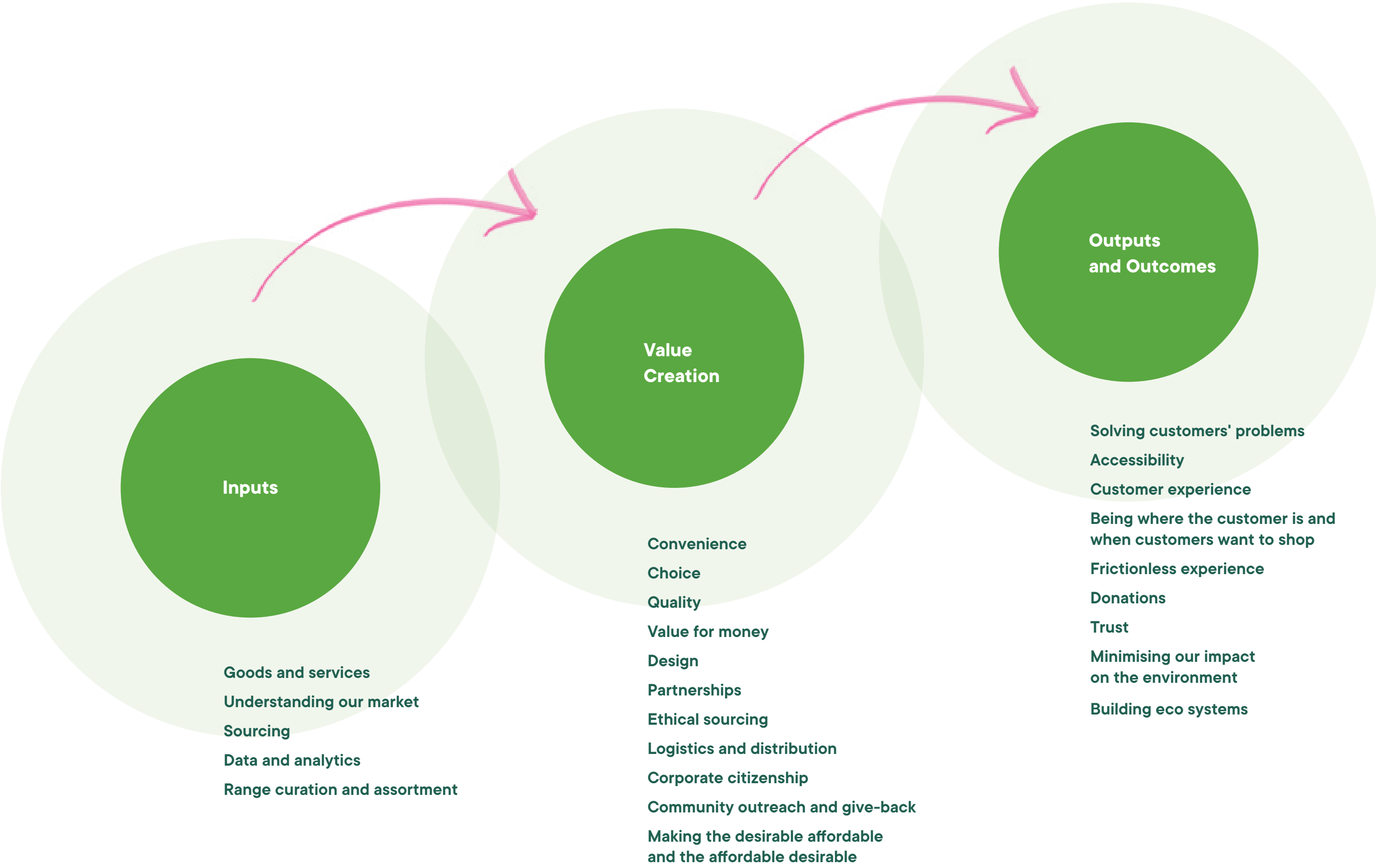
The first step where this is realised is product design, where we influence the product and market fit by design considerations which include materials, aesthetic appeal, durability, cost, colour, size, form and function. Our deep understanding of Kiwis and this market, reinforced through data analytics and insights, is helping us to make our products more relevant and on-trend within our goal of making the desirable affordable and, importantly, the affordable desirable.

Next we focus on sourcing the product. Increasingly we are moving to a direct sourcing model where possible. For some of our businesses such as Noel Leeming that source famous brands, this step is about building trust, confidence and strength with our key suppliers, and ensuring that we are the preferred channel to represent their global brands.

For other businesses, we move to a direct sourcing model whereby we contract directly with manufacturers in the country of origin, which involves ethical sourcing standards, quality assurance and consolidation of volumes to drive better pricing. These relationships are not transactional: they are partnerships designed to ensure that customers can be confident in the goods they are buying from us.

We next add value in how we bring the product to market, through our logistics and distribution activities, to ensure that the product gets to the right channels in depth and range, on time and in good condition at lowest

Our value creation



cost. Managing our environmental footprint is an important part of our consideration as we transport product, handle waste recycling and manage product return journeys. We are responsive to changing market demand by being able to control and flex how we distribute product from central storage to customer-facing channels.

The Warehouse Group has a long history of supporting New Zealand communities. We are here for good and giving back to our communities is a critical element of how we create value.

The quality, location, convenience and experience of all our channels form a critical element in adding value also. We are present in the locations where our customers are, in key catchment areas with physical stores that present an enjoyable and friendly customer experience. We show our product expertise and care for our customers over the long term, not just in that moment of a single store visit.

Our physical presence, product expertise and care for our customers are all critical components of what we think makes The Warehouse Group special for our customers. This can be seen every day, and especially where customers are making large-value purchase decisions, we want to meet them with sound advice and great service in the decision-making process and in the after-sales experience as well.

We add value through providing convenience, and making customers' experience enjoyable, hassle-free and rewarding. This might be through a digital channel providing the ultimate in convenience, or through our extended trading hours so we can be there when our customers want to shop.

Our key to integrated reporting

Manufactured capital →	**Our networks**
Intellectual capital →	**Our expertise**
Human capital →	**Our people**
Stakeholder capital →	**Our relationships**
Environmental capital →	**Our environment**
Financial capital →	**Our financial capital**

Our networks

Serving our customers

The Warehouse Group is the largest general merchandise retailer in New Zealand and 80% of New Zealanders shop with a Group brand at least once a year. One of our key competitive advantages is our capacity to serve and reach our customers through our store footprint and Distribution Centres, online and via phone support.

Historically, one avenue for growth has been to expand the store network, and open new stores. Aside from some Torpedo7 opportunities as we seek to build scale for that business, with 251 stores across New Zealand we are at 'peak footprint' in terms of retail space per square metre. We will continue to reposition and adapt our stores to match changing population distribution and customer needs, and our focus has shifted to repurposing and improving the utilisation of existing space to provide better customer experiences and profit per square metre.

A key strategic challenge for the Group is to drive growth in ways other than through store expansion, focusing our store thinking around customer experience and channel optimisation.

In future, as we move to full integrated reporting, we will report on our focus areas to demonstrate progress. For example, we will report on productivity of the footprint through Gross Margin Return on Footage (GMROF) and flexibility of portfolio and lease tenure.

In FY19 we expect our distribution costs per unit to reduce slightly through process improvement, with further reductions over the longer term by targeted technology investments.

Blue into Red: Trialling Warehouse Stationery stores within The Warehouse

In FY18 we expanded our trial of Warehouse Stationery stores within The Warehouse stores to test the concept of combining two brands under one roof, at Glenfield, Fraser Cove in Tauranga and in Rolleston, Canterbury.

This integration could provide greater convenience for customers, reduce costs, and potentially free up sites that could be repurposed for Torpedo7 without adding to the Group's overall occupancy costs. The results are encouraging so far and we intend to further test the concept with more sites in FY19, including specifically testing dedicated business-to-business points of presence.

Torpedo7 expansion

When we acquired Torpedo7 and the businesses that now make up the Torpedo7 Group in 2013 and 2014, it was solely an online business that we merged with R&R Sport and No. 1 Fitness stores. Our challenge now is to turn Torpedo7 into a true omni channel retailer that helps New Zealanders get the most out of the outdoors, and that means increasing scale.

In August 2018 the Group opened a Torpedo7 store in Palmerston North, and we have confirmed the roll out of a further three new Torpedo7 stores in the next three months. In FY17 we


251
stores across New Zealand
93
The Warehouse stores
14
Torpedo 7 stores
70
Warehouse Stationery stores
74
Noel Leeming stores

In FY18 we did a considerable amount of work to bring our core infrastructure up to standard, enhancing security and interoperability, and improving the resilience of our networks.

opened our Auckland flagship Torpedo7 store in Westgate, and a large-format store in Albany, enhancing our omni channel capability. We know from our online business that there is existing demand in these catchment areas. Opportunities to occupy Warehouse Stationery sites that are planned to be vacated are being assessed as well.

Click and Collect

All 251 of the Group's stores offer a Click and Collect service, in addition to delivery to an individual's home or work address. In FY18 we introduced several self-service Click and Collect lockers, where customers can access their goods without requiring assistance. The Warehouse currently has two stores with Click and Collect lockers (Westgate and Albany) and Warehouse Stationery has Click and Collect lockers at Wairau Park. Noel Leeming has a street-facing Click and Collect locker service in Takapuna, accessible out of hours when the store is closed. Feedback from customers has been positive and we will roll out further lockers in FY19.

Self-service checkouts

Self-service checkouts give customers the option to do their own quick, convenient transaction, particularly at busy times. In FY18 we introduced self-service checkouts to ten stores in The Warehouse, and in Warehouse Stationery at Wairau Park as a trial. Customers have told us they still want the option of a regular checkout experience, and we will maintain this option providing that need remains. The self-service checkouts now perform an average of around 50% of transactions in the ten The Warehouse stores where they have been deployed.

Logistics and fulfilment

Stores and online deliveries are supported by a national distribution network. Our Auckland Distribution Centre is made up of three facilities, and we also have Distribution Centres in Christchurch and Hamilton, and an additional network of seven smaller hubs supporting Noel Leeming Stores throughout New Zealand.

The Group is in the process of rectifying historical under-investment in logistics and fulfilment, and we are executing a plan to turn what is currently a weakness into a strategic advantage.

We are consolidating and integrating our distribution assets across the brands, and engaging strategic partners to transport our goods more efficiently and cost-effectively. This is supported by investment in technology, to improve processes, customer experience, efficiency and accuracy, and to increase capacity.

Technology investments will change how we manage and flow our products and increase our throughput capacity as well. This will also allow us to achieve a more efficient balance between centralised and localised fulfilment, providing enhanced visibility, accuracy and productivity. In addition, new systems provide the foundation to deploy software that will provide greater efficiencies in the future. This is a key project in competing online against global competition.

Internationally, we selected a new freight-forwarding partner in Mondiale in FY18. The global consolidation of shipping lines has resulted in reduced capacity and increased competition and we continue to monitor shipping costs and fuel prices closely.

We have also realised some operational cost efficiencies by appointing Toll New Zealand as our domestic transport partner throughout the Group. Toll will provide all store delivery services across all brands from FY19.

Modernising our technology infrastructure

In FY18 we did a considerable amount of work to bring our core IT infrastructure up to standard, enhancing security and interoperability, and improving the resilience of our networks. We have strengthened our core systems and invested in digital capability to increase our responsiveness to customer needs, and improved risk management, disaster recovery and real-time reporting.

However, we still have work to do, particularly in the Noel Leeming and Torpedo7 businesses, where merchandise and planning systems require investment. Our IT service delivery capability also needs further work, as we move more fully into an agile-based plan-build-operate model.

One of the first steps in consolidating our technology infrastructure has been to move our core mission-critical IT systems off premises, and onto IBM Cloud in New Zealand. These systems include customer-facing apps, e-commerce sites, point-of-sale systems, inventory and financial systems. We have consolidated around Salesforce as our key customer relationship management tool, and started migrating our call centres to PureCloud, which has helped us to amalgamate customer service across brands and provided a single view of customer contact.

The Group has introduced technology initiatives to improve productivity too. In the Finance area, we have deployed Robotic Process Automation to automate many manual tasks. We have used tools that utilise machine learning to clean our customer data, removing duplications and errors to create a master customer database. Accurate and reliable customer data enables us to deliver greater personalisation to our customers and improves measurement on the effectiveness of our customer engagement and marketing.

KEY HIGHLIGHTS

2m

Customers visit our stores every week

80%

of New Zealanders shop with a Group brand at least once a year

Four new Torpedo7 stores confirmed to open in the next three months

90%

of New Zealanders live within 30 minutes of one of our stores

Ten of The Warehouse stores offer self-service checkouts for quick, easy transactions

All 251 Group stores offer Click and Collect

Case Study

Investing in a world-class Warehouse Management System

We're changing the game

With 251 physical stores, five online stores, an app for The Warehouse and millions of customers across New Zealand, The Warehouse Group's capacity to serve customers through our distribution and logistics systems and networks is a critical part of our operations.

During FY18 and FY19 the Group is investing in a new best-in-class Warehouse Management System (WMS) provided by Manhattan Associates, which will significantly improve processes in our Distribution and Fulfilment Centres and transport

Far left: The Warehouse Group Distribution Centre team members Solomona Kapeteni and Siaosi Lui.

Left: Distribution Centre team member Semi Tofilau.

operations, and enable efficiencies that will save around $5.4m (EBITDA) from FY20.

The new Manhattan Associates' WMS has been ranked as the leading Warehouse Management System for the past ten years by Gartner in their annual *Magic Quadrant for Warehouse Management Systems*, and will replace the existing system, which is over 30 years old.

The new WMS has three main benefits for our Distribution Centres (DCs). Firstly, it allows greater visibility of all the different departments and tasks in the DCs. Secondly, the new WMS allows dynamic allocation of orders. The third benefit is that the WMS makes the decisions based on real-time information and data, using interleaving to assign tasks to the closest individual, therefore improving productivity and efficiency.

The Fulfilment Centre (FC) is located within our Distribution Centre complex and is dedicated to fulfilling online customer orders. We are now able to introduce a WMS into the FC, replacing the existing manual-based system and dramatically improving efficiency and customer experience.

Our expertise

We don't sit still.

Technology is not only important as a key enabler of our retail business, it is also critical as a channel to market.

We've been operating in New Zealand for 36 years, and we have deep specialist knowledge and expertise in the retail sector. However, there is variability across the Group in how we do things, ranging from world-class services in our Noel Leeming Tech Solutions offering, to areas that need significant process improvement, such as our merchandise planning systems in Torpedo7.

One of our core strategic plans is to fix the retail fundamentals, taking best practice and making it consistent across the organisation.

The Centre of Excellence model allows us to share expertise across the Group, leveraging knowledge through process improvement. The benefits of this approach include being able to simplify and standardise our business processes, reduce the variability of performance throughout the Group, and leverage the Group's scale in investments and cost management. There are clear benefits to our people, including career development opportunities and improved learning and development investment.

This new way of working does have some complexities, and we continue to manage teething issues as we adjust to our new operating rhythm.

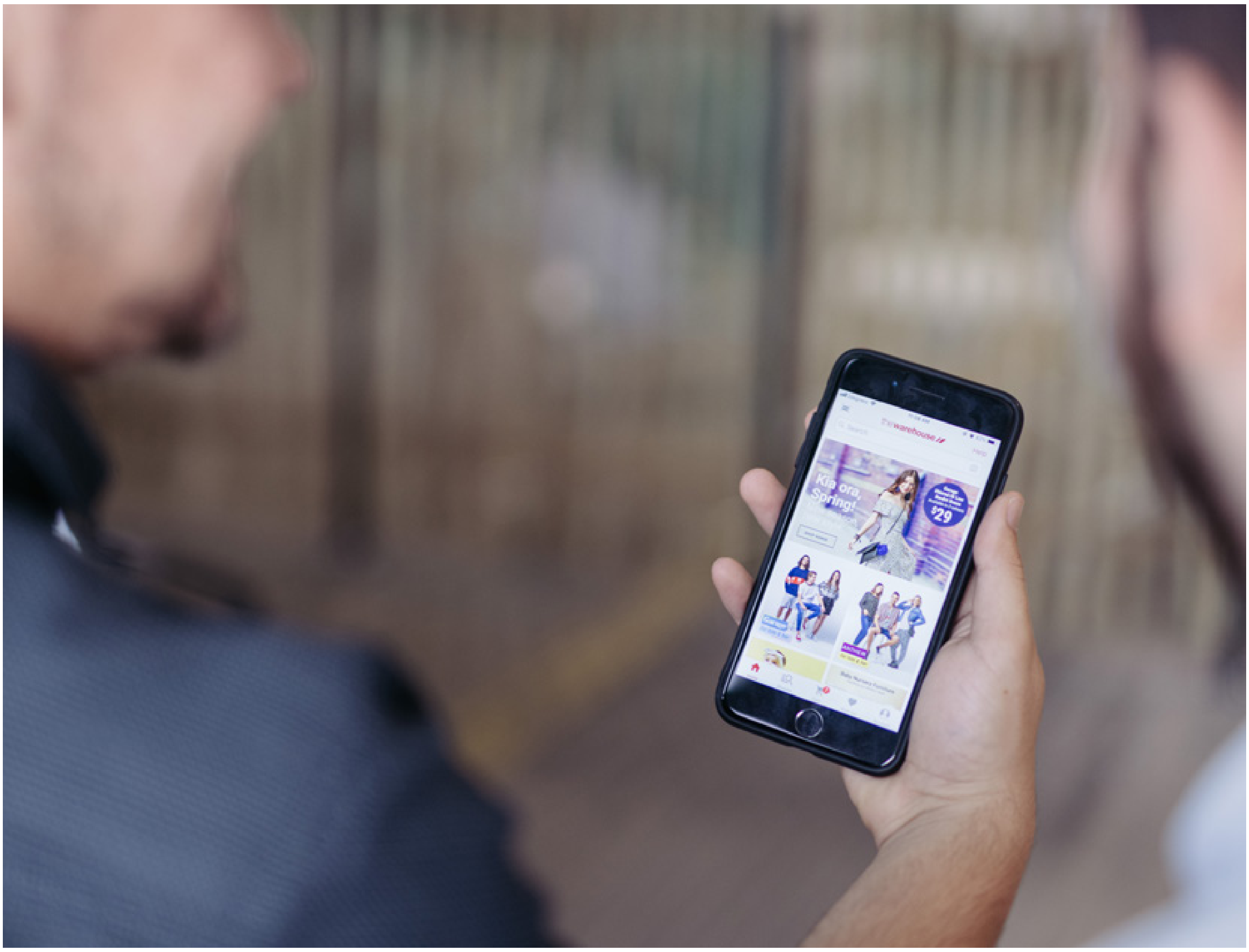
Improving our digital offering

We have invested significantly in product management, user experience and development in FY18 to deliver a world-class e-commerce experience.

We've built a team who have a common goal: to delight customers with the beauty of technology, serving customers anywhere, anytime and through any device. We're continually introducing and testing new digital innovations to make shopping with us as convenient as possible.

The Warehouse app, originally introduced in 2014, is one of the top-rated shopping apps in New Zealand with a 4.7-star rating on iTunes (at time of publication), and revenue is up 275% on FY17. The app offers voice technology, product scanning capability, and we have recently introduced 'Snap and Shop', in partnership with Google, which allows customers to take photos on their smartphone of any item they like and instantly match them with thousands of products in our catalogue. Similarly, we were one of two retailers in New Zealand to partner with Instagram on launching Instagram Shopping, giving our social-media audience the option to 'see it, get it' directly from our posts.

In FY18 we entered into a trial with PartPay on The Warehouse, Warehouse Stationery and Torpedo7 websites,



The Warehouse app is rated 4.7 stars on iTunes at the time of publication, and revenue is up 275% on last year.

which allows customers to spread out the cost of goods purchased online over six weeks. PartPay has been popular and now makes up 16% of all online transactions.

Other innovations have included introducing 'chat bots' to improve customer service experiences and outcomes. We still have a long way to go, and the purchasing and fulfilment parts of the online customer experience are not yet up to standard.

This is an area where the variability of performance across the Group is evident. In some parts of the business such as 1-day we've got it right, but in others such as the Red Sheds, we currently operate a distributed fulfilment model from some stores, which is difficult to manage with our current inventory management practices in store. As a result, customers can often receive multiple parcels in the fulfilment of their orders. This is inefficient, costs us money and frustrates our customers. Improving online fulfilment is a key focus area for the business in the coming 12 months.

We're doing marketing differently

FY18 saw some strategic changes to our marketing structure and approach. While we continue to focus on growing our independent brands, we consolidated all our marketing, e-commerce, customer experience and customer engagement functions into a centralised Centre of Excellence,

'Our new marketing structure is working and customers are responding well to our new campaigns under EDLP.'

NICK GRAYSTON
CEO, The Warehouse Group

creating a fully-scaled and integrated marketing capability.

We moved from seven separate media planning and buying agency relationships to a single media agency of record. Following a robust selection process, we appointed OmnicomMediaGroup as our partner with a focus on innovation, customer engagement, and best-in-class measurement and attribution.

In this new configuration, we are better able to measure the results of our marketing. For example, our customers responded well to this winter's Big Toy Month, our first major toy campaign post-Christmas under EDLP. The campaign applied our new marketing capability across in-store and online channels. Sales in the toy category increased 3.0% and the average basket increased 6.0% during the campaign. We ran a fully-integrated marketing process from creative, media through to insights and produced targeted vertical video content for mobile.

Other highlights included introducing first-in-New Zealand digital marketing initiatives, including launching personalised product catalogues on Facebook, in-store visit conversion campaigns with Google AdWords, and single customer view models for predictive email campaigns.

We have also invested in world-class marketing talent. The Group has appointed Jonathan Waecker as Chief Marketing Officer and Michelle Anderson as Chief Digital Officer, and brought two high-profile New Zealanders home to lead in Executive Creative Director and Head of Group Insights and Data roles.

Loyalty programmes

The Warehouse Group has a number of loyalty programmes, products and redemption partnerships across our network, including MyNoelLeeming, BizRewards, the Torpedo7 Over and Above Club, and The Warehouse Christmas and Jewellery Clubs. Noel Leeming and Torpedo7 are also members of the Fly Buys scheme, with Noel Leeming one of the largest redeemers of Fly Buys points in New Zealand.

Around 50.0% of customers shopped at two or more Group brands in the last year, and we are exploring options for how we can promote and improve the cross-brand purchasing ratio.

Transformation

Fixing our retail fundamentals is all about improving how we do things, getting better at managing our core business processes, and reducing or eliminating processes that don't add value for our customers. One of the key benefits of the transformation programme is the involvement and engagement of hundreds of people across the organisation, all with a continuous improvement mindset, a shared understanding of what our goals are, and the permission to effect change throughout the business to improve profitability and better meet our customers' needs.

Passionate experts unlock New Zealanders' tech potential

The Noel Leeming Tech Solutions business continues to go from strength to strength under the leadership of Sean Stephens, GM Retail Services.

"Customers have told us they want the latest products but they don't always have the time or knowledge to get things up and running as efficiently as they would like – so that's where we come in," says Sean. "We can help with anything from wall-mounting a TV to maximising a customer's Wifi so they can stream their favourite shows."

"Our aim is to relieve any technology pain points – whether that's getting something delivered, installed and set up, or providing support further down the track."

Tech Solutions services can be purchased à la carte or as part of a package when buying a new product (MyTechSolution). Our Tech Solutions brand has service spaces in every store throughout New Zealand from Kaitaia to Invercargill, and strong brand presence in our online channels.

MyTechSolution is an end-to-end service proposition where customers have the total support of Tech Solutions staff for any of their technology and appliance service needs including delivery, setup and installation, learning and product education, remote technical support, cover for getting products repaired at no extra charge and an annual bonus $20 gift card.

We have 77 dedicated Tech Solutions specialists nationwide fulfilling customer needs both in-home and in-store. Stores without dedicated Tech Solutions specialists have cross-functional Tech Solutions staff in order to support Kiwi customers wanting Tech Solutions services. At any time, we have upwards of 150 team members capable of delivering Tech Solutions Services throughout the country.

Noel Leeming Tech Solutions services over 40,000 kiwi homes per year and this is set to double in FY19.

The overall Services business has had strong year-on-year growth during FY18, up 17.0%, with growth coming from all service lines of business. This growth was a result of several initiatives executed during FY18. One was the nationwide roll-out of Tech Solutions spaces into all Noel Leeming stores, improving coverage and delivering growth of 21.0% in the in-store portfolio.

We are particularly pleased with the service plan revenue growth, which is up 21.0% year-on-year. Around 24.0% of all service plans were the new MyTechSolution package, and over 50.0% of customers purchasing the new MyTechSolution product have used some feature of the service plan within the first year.

All of this has been achieved with a Net Promoter score for Tech Solutions of 86.0%. This demonstrates that the high levels of growth have enhanced customer experience and not detracted from it.

NOEL LEEMING TECH SOLUTIONS SERVICES AT A GLANCE

Relieving New Zealanders' technology pain points

17%

growth YOY across Services business in FY18

21%

service plan growth increase

55,000

paid customer interactions

77

dedicated Tech Solutions specialists nationwide

86%

the Net Promoter Score for Tech Solutions in FY18

Designed by New Zealanders, for New Zealanders: The Warehouse Group has invested in design capability over the past 18 months as part of our move to a direct sourcing model. The majority of our private-label products are designed by New Zealand designers at our office in Northcote, Auckland.

Unlocking value in direct sourcing

Sourcing better products at better prices

The Warehouse aims to make the desirable affordable by providing stylish and functional products to New Zealanders, and most of our product range in The Warehouse Stores are from our own private label.

We made the decision to increase our direct sourcing capability in FY17, improving the cost, quality and speed to market of our goods. In FY18 we have accelerated the transition to a direct sourcing model through our transformation programme, in line with our strategy of fixing the retail fundamentals.

Direct sourcing involves managing and controlling the design and production of goods in-house, rather than relying on agents to facilitate the process. It allows us to have much closer relationships with our factory suppliers, ensuring our ethical sourcing practices are met and our products exactly match our quality and design specifications.

Complemented by improvements in the reporting and analysis of data, direct sourcing also means that we can meet customer demand faster. We have built the capacity to respond more quickly to micro or geographical trends and replenish popular goods.

In FY18 we significantly increased the number of products sourced directly and we will continue to increase this during FY19. The move to direct sourcing has been remarkably quick and smooth, and as a result we have become more efficient and productive, reducing our expenses as a percentage of orders by 0.9% year-on-year.

We achieved this change through increasing our own sourcing capability, integrating our buying and sourcing teams, and working cross-functionally across planning, buying, design and sourcing, and quality. Almost 100% of our apparel range is now directly sourced, and we are currently replicating the process across our Home and General Merchandise categories.

We are also moving more of our private-label brands in Warehouse Stationery to direct sourcing in FY19.

While we continue to operate in China, particularly for General Merchandise production, India and

Direct sourcing involves managing the design and production of goods in-house, rather than relying on agents to facilitate the process.

Bangladesh are emerging as global powerhouses in producing apparel and soft home goods, establishing 'factories of the future'. In February 2018 we opened a Sourcing Office in New Delhi, India, employing a team of 20 who work closely with our accredited factories in India and Bangladesh. To date, the India Sourcing Office continues to exceed expectations and we are forecasting accelerated growth again in FY19.

We remain focused on developing best-practice sourcing processes, systems and competencies. Our Computerised Business Exchange (CBX) implementation is on track and all orders are now raised using this tool.

To unlock the next level of value in direct sourcing, in FY19 we will seek to transition to Wholly Foreign Owned Enterprise (WFOE) status in China, so that we can locate related services such as quality control, production management, and pick and pack closer to source.

Our people

We're on for our customers.

The Warehouse Group's team members are our heart, and New Zealand is our focus. We are working harder on working smarter and making the connection between our capability and our customers stronger than ever before.

Culture

To achieve our goal of delivering long-term sustainable profitability in an increasingly competitive context, we are transforming our culture. Reaching our full potential means focusing on both culture and performance.

A key part of that is respecting our heritage. We're already a people-centred, Kiwi-proud and socially-responsible organisation. We are now developing a performance culture, centred on delivering to and exceeding our customers' expectations. This means providing clarity of focus to our team, and defining what good looks like to drive elevated performance right across the organisation, from customer interactions in store through to our Store Support Office's activities.

We could be better at aligning performance objectives with our Group strategy, supporting individual career purpose and goals, and aided by learning and development. This is a key focus area for our culture change as we push to become a more performance-oriented business, while not losing the heritage values that connect us with our customers. We want to constantly improve productivity, continually grow individual and company capability, and enable greater visibility and recognition for high performance.

The Warehouse Group employs 12,000 people in New Zealand.

One of the complexities of Group matrix management is taking the strong values from each brand and making them relevant and resonant across the business. The next step in the evolution of our culture was to engage our people in over 70 workshops to capture and define the purpose that unites us.

These workshops helped to create our new Group vision, purpose and values, which were launched to our team in July 2018.

People and capability

Finding people with the right skills is a key challenge. While we have been able to attract world-class talent to bring in new ideas of global best practice at senior management level, we struggle to find the required omnichannel retail experience across many departments, particularly in buying and sourcing, and supply and logistics.

This challenge is not unique to us or the sector, and reflects New Zealand as a small market and the relatively recent exponential developments in retail disruption. It is also a result of our specific operating model, with functions such as direct sourcing.

As well as continuing to look for specialist talent offshore when we can't find it in New Zealand, we are focused on building our bench through learning and development too. Retraining and developing our existing people makes sense, from both a cost and intellectual property perspective, as supported by our People strategy.

In stores, we have a very good level of operational excellence, and our focus now is to look at

Diversity Targets

White Ribbon Accreditation by 2017	Complete
Inclusion Network in place by 2018	On track
All managers to have completed Bias training by 2018	Complete
Rainbow Tick Accreditation by 2019	On track
Pay Equity across the Group by 2020	In progress
Promotion Equity across the Group by 2020	In progress

The Warehouse Group prides itself on taking a stand on social issues that affect the health and wellbeing of our team members and New Zealanders at large.

The Warehouse Group team members at the Store Support Office in Northcote, Auckland

how we can develop and recruit for strategic agility and enterprise. This also requires us to introduce more flexibility within our frameworks and decision-making processes.

Workplace relations

The industrial climate in New Zealand has shifted recently, and rising labour costs are a challenge for the Group, which employs 12,000 people, and for the retail sector at large. The expanding labour supply has dampened wage inflation and there is an expectation that wages will catch up, as people meet higher costs of living.

The Warehouse has typically paid above the minimum wage through the Career Retailer Wage programme, which rewards team members who have completed their training and more than 5,000 hours or five years' service.

We see the overall cost of labour as a headwind over the next few years, and while the Group is currently unable to simply absorb increased wage costs within current productivity levels, we will work to unlock further productivity gains, and drive innovation around our business processes.

Keeping our people safe and well

We are committed to providing a safe environment for our team, customers, contractors and visitors, and our appetite for risk is low. We take a holistic approach to health, safety and wellbeing, and people are supported to be their best through the promotion of healthy environments and safe behaviours.

While the Group has made progress on developing a positive safety culture, FY18 has seen a renewed rigour and focus on health, safety and wellbeing.

The Board has established a new Health, Safety and Wellbeing Committee to ensure the best-possible governance exists, and there is a stronger focus on assurance through auditing and reporting. The health, safety and wellbeing function has also been elevated within the organisation to General Manager level, reporting to the Chief People Officer. As part of this, we are rebuilding our Health Safety and Wellbeing framework to create clear standards that hold us accountable, and we are continuing to improve the management of risks that could cause serious injury or harm.

We have re-identified our critical risk areas, and established critical risk workstreams with assigned subject-matter experts and operational leads to create control methodology. This will create more consistent practice across the Group, keeping our team members, contractors and customers safer.

Like most large employers in New Zealand, The Warehouse Group self-insures against health, safety and wellbeing claims as part of the ACC Partnership Programme. In FY18 the Group retained its accreditation.

Wellbeing

The Warehouse Group prides itself on taking a stand on social issues that affect the health and wellbeing of our team members and New Zealanders at large. One of these is smoking, which kills 5,000 New Zealanders a year. The Warehouse has never sold cigarettes or tobacco products and we were pleased to adopt a completely Smokefree environment on 1 January 2018.

Mental health is a key issue, also with around one in six New Zelanders experiencing some form of mental illness. In October 2017 we introduced our 'Suicide: Supporting those at risk' policy, designed to ensure early support is available to address significant mental distress among team members. The policy aims to minimise access barriers to primary care, and educates managers on how to support and respond to team members who may be experiencing mental distress.

The Group already offers free counselling to team members and their families, and the new policy provides additional support by way of a free GP visit, and the opportunity to take leave to support family members or colleagues experiencing mental distress.

In 2015 we launched our Domestic Violence Policy to support team members experiencing family violence. We provided training to managers on how to appropriately support staff, and made resources and information available on our intranet. In 2016 we created a shielded icon on our external website to allow women to access help and support services in a way that is untraceable.

We have focused on reducing the impact of family violence in New Zealand through our fundraising initiatives in FY18, including raising $638,000 through The Warehouse Group Gala Dinner for the Breakthrough programme. Breakthrough is a partnership between The Salvation Army and The Parenting Place to help fathers with a history of domestic violence become better dads.

We have shared our knowledge with over 100 other businesses interested in developing their own policies, and readily welcome enquiries. In FY18 we were acknowledged for our work in this area by Women's Refuge, and received their Workplace Refuge endorsement for businesses actively providing a workplace refuge for staff experiencing family violence. We were also the first organisation in New Zealand to become White Ribbon accredited in 2017.

We believe that diversity creates a more productive, creative and dynamic society and improves our ability to see and connect with the world around us.

Above:
The Warehouse Group participated in the Auckland Pride Parade in February 2018.

Connecting with our people

In May 2018 we launched a new digital platform for internal communication across the Group. Using The Warehouse Group TWG Tahi desktop and mobile apps, our 12,000 team members can now share, collaborate and receive business information whenever and wherever it is needed. This is the first time the Group has had a tool which is available to every single one of our team members at once.

Celebrating diversity and inclusion

The Warehouse Group has always believed in doing what is right and helping Kiwis to reach their full potential. We believe that diversity creates a more productive, creative and dynamic society and improves our ability to see and connect with the world around us. It's the right thing to do, and it also makes good business sense to reflect the rich make-up of our 12,000 team members and the millions of Kiwis who shop with us every week.

We're dedicated to providing an inclusive work environment to attract and retain talented people. The focus areas to progress our diversity and inclusion agenda continue to be: gender, ethnicity, age, disability and our Lesbian, Gay, Bisexual, Transgender and Intersex (LGBTI+) community.

In August 2017 we introduced our Gender Transition Policy to support team members transitioning gender. The policy provides an additional ten days paid leave to any team member transitioning gender, and was developed in consultation with the Rainbow Tick organisation. This policy is an important statement about our commitment to inclusivity.

FY18 also saw the Group participate in the Auckland Pride Parade for the first time. A total of 128 team members registered to participate in the Parade, along with Group CEO Nick Grayston and members of the Executive Team, to march in support of diversity, respect and inclusion.

In FY19 we are looking forward to receiving the Rainbow Tick, which demonstrates that we are an organisation that understands, values and welcomes sexual and gender diversity.

FY18

BOARD MEMBERS

EXECUTIVE TEAM

ALL TEAM MEMBERS FY18

MALE	41%
FEMALE	59%

FY17

BOARD MEMBERS

EXECUTIVE TEAM

ALL TEAM MEMBERS FY17

MALE	40%
FEMALE	60%

Women

For the 2018 calendar year, we have expanded our Noel Leeming Women in Leadership pilot programme across the wider group. Initially designed to help improve the number of women in management roles within the Noel Leeming business, the programme will see 14 high-potential women from various roles across the Group graduate from the programme in September.

Currently we have median gender pay equity at a group level. However, there are some areas within our business where we have a slight difference. We are working on a consistent approach to gender pay equity across the Group, with investment planned in FY19. Our goal is to be operating at best practice by FY20.

We are developing our diversity initiatives across more segments of our team in FY19. Each member of the leadership team will undertake responsibility for one area of diversity and inclusion as executive sponsor.

In terms of governance, Diversity is an important focus for our People and Remuneration Committee. We updated our Diversity Policy and objectives in September 2017, and the Committee has reassessed and confirmed the policy and progress against objectives in 2018.

Ka pai
Ata Marsh!

Case Study

Charming customers with Te Reo at The Warehouse

Learning to speak Te Reo Māori gave team member Ata Marsh a "sense of belonging" - and now it's made her famous.

The much-loved checkout operator at The Warehouse store in Newmarket has been charming customers for years by chatting with them in Te Reo, but she managed to reach a whole new audience when she was featured on Stuff, One News, and Maori Television in early 2018.

The inspirational mother-of-four told reporters that customers are often "so happy" to hear her speak Te Reo that some even join in. "Some people haven't heard it in a long time and reminisce with me, tell me how it takes them back."

For others, she hopes that she will inspire them to learn the language. Ata says, "I hope that every single customer that I've spoken Te Reo Māori to, I've planted a seed in them and maybe they could go to a wānanga and learn Te Reo Māori and be as passionate as I am about my language."

For Ata, learning to speak Te Reo Māori is still a work in progress after she went on an immersive year-long course. "For me personally, being an older speaker, I don't absorb quite as quickly as our young tamariki do, but kei te pai. I'm so passionate about Te Reo Māori nothing can stand in my way."

That passion is evident to everyone who meets her. In fact, The Warehouse Chief Executive Pejman Okhovat says he's been inundated by phone calls, letters and emails about Ata since she joined the team nearly five years ago.

"Customers have reached out and shared their wonderful experiences with Ata - her great attitude and what a positive role model she is for the community. We're extremely proud to have her on the team."

Our relationships

The whole is greater than the sum of its parts.

We believe that working together as partners for the benefit of New Zealand is the key to building successful relationships. Through our business operations and activities, we regularly engage with stakeholders including our customers, our employees, our suppliers, our communities, government and industry bodies, and our charity partners.

Our communities

Social responsibility is in our DNA as a company. The Warehouse Group has a long history of supporting New Zealand communities, built on the philosophy of our founder, Sir Stephen Tindall. Since 1982, we've facilitated donations of more than $63m to charities and community groups across the country. In FY18, we raised $5.3m.

As customers increasingly expect organisations to behave in a socially responsible and ethical way, we're focusing on extending our corporate citizenship activities. We don't do this to seek recognition, but because we believe it's a fundamental part of our purpose, and we are encouraged by the results we achieve by working with our community partners.

We value our relationships with our charity partners and we work together to design programmes that will have an impact on New Zealand's most pressing issues. In future, we will align our partnerships and programmes of work with our key areas of focus in accordance with the Sustainable Development Goals for New Zealand.

Government

We have links to government through our Board of Directors and Executive Team, and contribute our point of view on issues that matter to us, our team members and our customers. We tend to work through Retail NZ (formerly The Retail Association of New Zealand) on matters of government policy. However, we are considering how we might use our voice more on matters of particular significance to the Group; for example: our work to reduce family violence in New Zealand with a range of partners, and our recent contribution to the Human Rights Commission's submission to the Select Committee considering the Victim's Protection Act 2018.

Sector engagement

In 2017 we officially launched The Warehouse Red Shirts in Community programme, an innovative public-private partnership with the Ministry of Social Development (MSD) to provide work experience opportunities for young people aged 16 to 24 not in employment, education or training. Participants spend three weeks working in a The Warehouse store and receive training in retail customer service, communication skills, stock management and basic health and safety. Where possible, participants can earn NCEA credits towards a National Certificate in Retail (Level Two).

The scheme was rolled out to 1,154 young New Zealanders after pilot programmes in Whanganui, Kaitaia and Wellington saw 70% of the participants in some form of paid work within three months of completing the programme. We are now working closely with MSD to develop an adapted model that can be used by other large New Zealand organisations interested in work readiness programmes.

In partnership with the Department of Corrections, our Distribution Centres have been involved with Corrections' release-to-work programme for offenders since 2008. The programme allows minimum-security prisoners, who are assessed as suitable, to engage in paid employment. They are paid market-related wages. To date, we have assisted a total of 185 people to gain work experience through this initiative.

In 2017, we partnered with the Government's Low Emissions Contestable Fund to install 24 electric vehicle charging stations at The Warehouse stores around New Zealand.

Noel Leeming has a commercial relationship with the Government also, being the only major retailer participating in an all-of-government procurement contract to provide IT hardware to government agencies and departments. In addition Noel Leeming has a syndicated contract with the New Zealand Defence Force to supply goods and services, and other government agencies can take part in this contract, with around 20 participating at present.

The Group has a commercial partnership with The Manaiakalani Education Trust, which guarantees digital equity and access for students from low-decile schools, retooling these schools to make education engaging, empowering and success-making. As well as supplying technology and equipment, we also provide give-back benefits and the opportunity to pilot digital innovations for participating schools.

The Warehouse operates 'Red Shirts in Schools', a high-school-based work experience programme, part of the Tertiary Education Commission's Gateway Programme. Gateway funding enables secondary schools to give senior students access to structured workplace learning, integrated with school-based learning.

In 2018 the Group hosted 12 students to spend a day with business leaders as part of the Auckland University of Technology (AUT) Shadow a Leader programme, and provided five scholarships to students completing the Bachelor of Retail and Business Management at Massey University. The Group also hosts AUT and Massey University co-op students as interns each year.

Our contribution to New Zealand's regions

We employ around 5,000 people in the regions outside of Auckland, Wellington and Christchurch, which is around 40% of our workforce. In more than 20 New Zealand regional centres, The Warehouse is the only general merchandise retailer in town, providing New Zealanders with everyday necessities they otherwise would not have easy access to.

Suppliers and partners

Our suppliers are strategic partners in delivering quality products that provide good value for New Zealanders.

We take an open and honest approach to communicating with suppliers. For example, in June 2017 we held a suppliers' conference to talk through the change from Hi-Lo discount-based pricing to EDLP in The Warehouse, and we're grateful to our suppliers for their support as we continue to bed that change in. Similarly, we met with Torpedo7 suppliers to update them on our plans and appreciate their support and positive feedback as we expand the Torpedo7 store network across New Zealand.

In areas such as consumer electronics, where product innovation is rapid, our relationships with global brands such as Sony, Samsung and Apple enable us to ensure our customers can access (sometimes scarce quantities of) the best products as they become available internationally.

Our move to a direct sourcing model for our private labels has meant we have been able to facilitate much closer relationships with the factories that produce our goods for mutual benefit. For example, with some suppliers we can book production lines in advance, which gives us certainty and pricing advantages.

Closer relationships with factories and understanding their timelines and capacity helps us to also ensure that our ethical sourcing practices are adhered to. We currently have 99% visibility of our Tier 1 factories and their conditions and standards.

Fundraising FY18: Accountability Report

CAUSE	BRAND	AMOUNT RAISED	BENEFIT TO NEW ZEALAND	STRATEGIC PRIORITY AREA
Breakthrough Programme	The Warehouse Group	**$638,000**	A programme of mentoring and support for fathers with a history of violence	Family violence Building stronger families
OUTLine	The Warehouse Group	**$5,000** **Sponsorship**	20,000 pamphlets produced to promote counselling for the LGBTI+ community	Diversity and inclusion
PHAB – Supporting youth with disabilities	The Warehouse Group SSO Charity Partner	**$17,461**	Helped upgrade PHAB's Takapuna facility by providing much-needed homewares, games and technology, and donated several Mac Books to the teenagers of PHAB	Education Building stronger communities
Distribution Centre fundraising – various charities	The Warehouse Group – Distribution Centre fundraising	**$13,136**	Fundraising supporting Duffy Books, Blind Foundation, NZ Breast Cancer Foundation, Cancer Society of NZ, and The Salvation Army	Local communities
Bob Tindall Golf Day	The Warehouse Group	**$54,033**	Youthline will be able to train an additional 200 volunteers in 2018/19 to respond to increased need	Mental health Supporting youth
Payroll Giving	The Warehouse Group	**$114,169**	Employees engaged in charitable giving to support their community	Local communities
Plunket	The Warehouse	**$343,576**	1,100 new baby essential packs distributed to struggling families	Building stronger families
Zoofari	The Warehouse	**$305,961**	9,000 kids from low-decile schools received free educational zoo visits	Environmental education Youth
Water Safety New Zealand	The Warehouse	**$450,000** **Sponsorship**	51,557 kids received free water safety education lessons	Education Safety
Youthline	The Warehouse	**$314,268**	84,470 young people supported to get the help they need during a crisis, relating specifically to self-harm, suicide, anxiety and depression	Mental health Supporting youth
Variety – the children's charity	The Warehouse	**$332,745**	290 financially disadvantaged kiwi kids supported through Variety's sponsorship programme and/or provided essentials	Supporting youth
The Parenting Place	The Warehouse	**$301,229**	4,144 parents have attended a Toolbox Parenting course	Building stronger families
Life Education	The Warehouse	**$340,698**	4,200 children from low-socioeconomic areas, who would have otherwise missed out, attended the Life Education programme	Supporting youth education
Women's Refuge	The Warehouse	**$462,914**	Over 4,100 children across New Zealand were supported through the 'Kids in the Middle' programme, to help rebuild a life free from violence	Domestic violence Building stronger families
Women's Refuge – Twice the Joy Christmas Appeal	The Warehouse	**$65,500 raised**	Over 9,000 Christmas gifts given to kids throughout New Zealand across 31 Women's Refuges. (realising over $163,750 product value)	Domestic violence Building stronger families

CAUSE	BRAND	AMOUNT RAISED	BENEFIT TO NEW ZEALAND	STRATEGIC PRIORITY AREA
Bags for Good – local community charities	The Warehouse	**$349,728**	552 local charity groups supported with proceeds from the sale of checkout bags and coin box donations	Local communities
Small Product Donations	The Warehouse	**$260,640**	Funds collected through plastic bags within each of the 93 The Warehouse stores used for small product donations to local community groups	Local communities
BBQ Fundraising	The Warehouse	**$274,964**	Store BBQs used to support and assist local community groups to fundraise for community activities	Local communities
The Salvation Army – Aspire programme	Warehouse Stationery	**$66,004**	225 at-risk young Kiwis taken through a year-long youth development programme	Supporting youth education
The Salvation Army – Back to School	Warehouse Stationery	**$63,875**	4,000 children supported with Back-to-School supplies	Supporting youth education
CanTeen	Warehouse Stationery	**$127,758**	43 CanGrow grants awarded, allowing 270 youth cancer patients to receive one-on-one educational programmes	Supporting youth education
Duffy Books	Warehouse Stationery	**$26,520**	1,500 students across 11 schools received 5 books; 7,700 books distributed in total	Supporting youth education
Child Cancer Foundation of New Zealand	Warehouse Stationery	**$72,374**	Over 150 families of kiwi kids newly diagnosed with cancer, supported with a wellbeing pack	Supporting youth education Health and wellbeing
Scouts New Zealand	Warehouse Stationery	**$39,511**	Over 250 disadvantaged Kiwi kids received an adventure experience	Supporting youth education
The Key to Life Charitable Trust	Warehouse Stationery	**$19,439**	20,000 students will hear the message of positive attitudinal change throughout New Zealand, in part due to the generous support of Warehouse Stationery customers	Mental health Supporting youth
New Zealand Fallen Heroes Trust	The Warehouse	**$32,520**	Benefiting the families of fallen and injured soldiers with grants to help with Back-to-school costs	Building stronger families
New Zealand Schools	Noel Leeming - Friends and Family rebates	**$65,800**	Funds raised benefiting 413 recipients across New Zealand	Supporting youth education
Hillary Outdoors	Torpedo7	**$20,825**	2,500 kids were given the gift of outdoor adventure through the Get2Go and Hillary Challenge national events	Supporting youth education
Ronald McDonald House Charities	1–day	**$50,000**	$20,000 in funds, $30,000 in product donations to support Ronald McDonald House	Health and wellbeing
All other fundraising*	The Warehouse Group	**$26,740**	Funds donated to 30 smaller charity groups.	Local communities
	TOTAL	**$5,255,388**		

*All other fundraising (funds donated to 30 charities, including: Bluelight, Christchurch Hospital, Red Cross, Skylight, The Hearing House, World Vision).

Left: Sewing operator Shirin Akter of apparel manufacturer Yunusco Group in Bangladesh.

Case Study

Ethical sourcing

New Zealanders want to know that the overseas workers who make their products are not mistreated. As an organisation that contracts for the manufacture of products offshore, The Warehouse Group has a responsibility to ensure that workers in our suppliers' factories are paid fairly and have humane working conditions.

All suppliers must abide by our comprehensive ethical sourcing programme, which focuses on protecting the workers who make our own-brand products. Our programme contains the three elements of policy, due diligence, and remediation or corrective action described in the United Nations Guiding Principles on Business and Human Rights.

Local laws and customs, sub-contracting practices and limited visibility of the entire value chain in regard to raw materials mean that challenges exist. With around 500,000 people associated with the manufacture of our products each year, our responsibility is significant.

We have been actively assessing and monitoring working conditions in these supply chains since 2004. More recently this has also included suppliers associated with the Warehouse Stationery and Torpedo7 brands and our larger non-trade procurement programmes.

We've made good progress, but we still have work to do. Our achievements to date include the fact that we have visibility of 99% of our private-label merchandise factories supplying The Warehouse. Every new factory wanting to join our supply chain must be independently assessed to ensure they meet our standards. Our standards are stringent – in 2017, we declined 39% of new factory applications.

Our work does not stop short at assessments – our own Ethical Sourcing specialists work actively with factories to support their ongoing improvement. In addition to face-to-face consultation, we distribute a free library of e-Learning lessons addressing various labour management challenges factories may face.

We work with our suppliers to address unique needs in each developing country. For example, through our membership of the Alliance for Worker Safety in Bangladesh, we have been part of a complete transformation in health and safety within members' garment factories.

In Malaysia, where manufacturers have a high dependency on foreign migrants, we have been enrolling our vendors in a multi-stakeholder programme facilitated by the Responsible Business Alliance. This programme brings together recruitment agents, factory managers, and foreign migrants to alleviate forced labour risks for all participants.

We are introducing further initiatives in FY19 to progress improvements in working conditions for the people within our supply chain. We will sponsor new workplace health and financial literacy initiatives for women in India and Bangladesh through HerProject. We will also join the international drive to improve the sustainability of cotton production by becoming a participant in the Better Cotton Initiative.

In FY18 we continued our tradition of public transparency with our most comprehensive report to date: The Warehouse Ethical Sourcing Report, which contains more information about our accomplishments and challenges and a detailed description of how our programme works. We also launched 'Wear Your Ethics', a consumer-facing website for The Warehouse. These resources were reviewed and informed by dialogue with NGOs and external consultants.

OUR COMMITMENT TO ETHICAL SOURCING. WE STRIVE TO ENSURE THAT:

Working conditions are safe and hygienic

There is no child labour

Employment is freely chosen

Wages meet or exceed legal entitlements

Working hours are not excessive

Environmental protection measures are sound

There is no unauthorised subcontracting or processing

There is no unethical or illegal conduct

Changing lives with Breakthrough

"Me mahi tahi tātou mō te oranga o te Katoa."

"We should work together for the well being of everyone."

Family violence is an important issue in New Zealand, with one in seven children stating they have been harmed by a parent, and an act of family violence being reported every five-and-a-half minutes. In 2017 The Warehouse Group extended our work to address family violence in New Zealand by funding the ground-breaking Breakthrough programme.

A partnership between The Salvation Army and The Parenting Place, Breakthrough is a comprehensive programme to support fathers with a history of violence to build healthy, safe family relationships.

Thanks to the generosity of suppliers, partners and team members, The Warehouse Group Gala Dinner in 2017 raised $638,000 to support the programme. The Warehouse Group Gala Dinner raises money for community partners that take an innovative approach to a challenge facing the community.

Jono Bell, National Practice Manager Social Services at The Salvation Army, says the Breakthrough programme addresses a critical service gap – supporting dads to change.

"While there are some existing programmes to help fathers address their violence, this is the first comprehensive initiative in New Zealand designed to strengthen the relationships between at-risk dads and their kids."

Breakthrough involves three components: 'Building Awesome Matua' – a parenting course for fathers; an intensive, personalised male mentoring programme; and a transformational three-day father-child adventure experience.

Breakthrough will be delivered in Kaitaia, Whangarei, West and South Auckland, Gisborne, Taranaki and Dunedin.

Jono says that The Warehouse Group has been a leader in addressing family violence, supporting White Ribbon and Women's Refuge, and establishing a family violence policy to support team members.

"Now, establishing Breakthrough means that the Group is tackling the issue from several different angles, and collaborating to provide a real solution."

It costs about $1,000 for a participant to complete the Breakthrough programme, and The Warehouse Group Gala Dinner has raised sufficient funds for 638 families impacted by domestic violence to benefit.

Above:
Laurie Beamish (Ngāi Tai ki Tāmaki), David Benattar, The Warehouse Group, Major Pam Waugh, The Salvation Army, Greg Fleming, The Parenting Place, Shari French, The Warehouse Group, Hannah Chapman, The Parenting Place, Jono Bell, The Salvation Army, Camille Astbury, The Salvation Army, Tim Hamilton, The Salvation Army, at Umupuia Marae.

The magic of zoo learning

Visiting the zoo is a memorable part of childhood for many Kiwi kids, but for some families facing hardship, it can be something a child may never get to experience, says Auckland Zoo director Kevin Buley.

Auckland Zoo is one of the New Zealand zoos that teams up with The Warehouse to deliver 'Zoofari', a programme providing free conservation-based educational experiences to children from low-decile-schools.

A total of 12,000 children will benefit from the programme this year, after The Warehouse raised $305,961 from a successful in-store fundraising campaign supporting Zoofari.

Kevin says that "we can sometimes feel overwhelmed and think that, as individuals, we can't really make a positive difference. But we need to remember there are millions of us, and every little positive action we each take counts – there is enormous power in our collective efforts, and The Warehouse Zoofari programme is testament to this."

"The children who participate in Zoofari are Aotearoa's future wildlife conservationists, vets, zookeepers, teachers and wildlife documentary makers – and The Warehouse Zoofari programme is what may help spark that passion and begin that journey," says Kevin.

"Over the five years Zoofari has been at Auckland Zoo, we have seen what a positive experience it can be for everyone involved. Our wonderful zoo educators see both children and adults being inspired from the moment they arrive and long after they have left. They learn about the way we care for our animals at the Zoo, the way we help wildlife in the wild and, importantly, what each of us can do to help make the world a better place. It is because of initiatives like The Warehouse Zoofari that we can all feel more optimistic about the planet that our children and grandchildren will inherit."

The Warehouse Zoofari experience is certified by the Ministry of Education and the visit is facilitated by zoo educators in partnership with teachers to ensure integration into the school curriculum.

Opposite:
Kids from Finlayson Park School in Manurewa enjoy getting up close and personal with animals at a Zoofari visit at Auckland Zoo.

'The children that participate in Zoofari are Aotearoa's future wildlife conservationists, vets, zookeepers, teachers and wildlife documentary makers – and The Warehouse Zoofari programme is what may help spark that passion and begin that journey'

KEVIN BULEY,
Auckland Zoo director

Our environment

Treading lightly

The Warehouse Group is committed to operating in a sustainable manner and helping Kiwis to live their lives in the same way. The current environmental crises are a pressing global challenge, and we want to play our part for New Zealand, and the world.

Addressing our carbon footprint is at the centre of our decision-making. We are embedding emission management into all our business practices, including calculating emissions' impacts as part of business cases, and factoring this into our negotiation and selection of suppliers.

Tracking our carbon emissions

The Warehouse has been tracking and reporting on its carbon emissions since 2009, and the entire Group of brands–Warehouse Stationery, Noel Leeming and Torpedo7–from 2015. The Group has a target of a reduction of 32% on 2015 emissions by 2030. This target reflects the 2015 international agreement to keep global warming under 2.0%.

Group emissions increased by 3.4% to 40,852 tonnes of carbon dioxide equivalent (CO_2e) in FY18, due to increases in electricity usage, domestic shipping (especially fulfilment of online orders), landfill, fleet fuel usage and refrigerant leaks from HVAC units.

In FY18, the Group retained our New Zealand CEMARS® (Certified

The Warehouse Group: Inventory of carbon emissions (tonnes of carbon dioxide equivalent) in FY18 vs FY17

ACTIVITY	FY18	FY17	CHANGE IN EMISSIONS
International shipping	14,081	14,231	-1%
Electricity	11,920	11,522	3%
Domestic shipping	6,687	6,087	10%
Employee air travel	2,891	2,954	-2%
Waste	2,150	2,062	4%
Company-owned vehicles	2,525	2,271	11%
Refridgerant losses from air conditioning systems	438	209	110%
Employee private mileage claims	160	178	-10%
Total	**40,852**	**39,514**	**3.4%**

Emissions Measurement and Reduction Scheme) certification for our emissions measurement and reduction programmes. To receive this certification, our emissions and emissions reduction plan were independently reviewed and audited.

The Group is one of 13 New Zealand-listed companies (out of over 50 invited to participate) to fully disclose their carbon performance and management plans to CDP (formerly the Carbon Disclosure Project). CDP is an international not-for-profit organisation providing a platform for companies to measure, disclose, manage and share environmental information with investors to improve market transparency.

We were ranked second equal of participating New Zealand companies by the CDP for our carbon disclosure. We were also the highest-ranked company in our category for Australasia.

Energy efficiency

Part of our move to reduce emissions is a transition to LED lighting in stores. In FY18 we increased the number of stores with LED lighting by four, bringing the total to 14. We've also continued an LED replacement programme in our Distribution Centres. We already promote natural light where possible.

Efficiencies in logistics

In FY19, we will be continuing to improve international shipping container utilisation, ensuring capacity is maximised. Where possible, we are working with our shipping partners to transport our products on bigger vessels, which are more modern and efficient.

We are continuing to investigate electric delivery vehicles and we are watching developments in electric commercial vehicles closely, awaiting vehicles for with suitable range and size.

We utilise rail for store deliveries where possible within New Zealand, as rail is more efficient than road, particularly over longer distances. We have also introduced trucks with mezzanine floors in FY18, to increase cubic capacity and allow the double stacking of goods, and are working with our logistics partners to support their efforts to drive better emissions performances in road transport.

Climate Leaders Coalition

In 2017, a group of CEOs, including The Warehouse Group CEO Nick Grayston, agreed that there was a clear need for collective action on climate change. They drafted the Climate Change Statement and in July 2018, it was signed by 60 New Zealand businesses. By signing, the Group has committed to measuring and reporting our greenhouse gas emissions and working with suppliers to reduce emissions, with the aim of helping to keep global warming within 2ºC as specified in the Paris Agreement. The Coalition also supports the introduction of a Climate Change Commission and the establishment of carbon budgets, enshrined in law. Together, the 60 businesses represent almost 50% of New Zealand's emissions. More information on the Climate Leaders Coalition can be found at www.climateleaderscoalition.org.nz

Above:
Suzanne Miller charging her EV outside the Invercargill store.

The Warehouse Invercargill leads the EV charge

The Warehouse Invercargill was one of the first stores in New Zealand to have an Electric vehicle (EV) charger installed.

Checkout operator Suzanne Miller (above) drives a Nissan Leaf EV, and she's delighted to have an EV charging station at the store.

"If I need a quick charge, I can pop in and top up," she says. "It's great to know that many of the towns I go to with a The Warehouse Store will have a charger."

Ms Miller says she likes that her electric car is much cheaper to run than petrol-based one, and easier and cheaper to maintain with fewer moving parts and no oil changes or cam belt.

"It's as fast as petrol cars and the running costs are cheap," she says. "And of course it's good for the environment."

Since 2009, The Warehouse has reduced the number of plastic checkout bags substantially and donated close to $4.5m to support charities and community groups from the sale of plastic bags.

Powering up EVs

In late 2017 we began rolling out public EV stations at 24 The Warehouse stores across New Zealand, where EV owners can plug in and charge their vehicles while they shop.

We're proud that we could use the scale and convenience of our store network to support the development of an EV infrastructure in New Zealand. The chargers have had an enthusiastic response from customers and team members, and to date, we have supplied around 30,000km of travel to EV owners, saving close to 7,500kg of CO_2.

The charger network was jointly funded by The Warehouse Group and the Government's Low Emission Vehicles Contestable Fund.

The Warehouse has EV charging stations in Bell Block, Blenheim, Cambridge, Dunedin, Gisborne, Gore, Hastings, Hawera, Invercargill, Masterton, Motueka, Napier, Oamaru, Petone, Rangiora, Rolleston, Royal Oak, Snells Beach, Taupō, Tauranga, Te Awamutu, Te Kuiti, and Timaru, Whangarei. We also have a further two EV charging stations at our Auckland Store Support Office in Northcote, with four more to be installed.

As a group, we are also committed to having 30% of our road vehicle fleet electric by the end of 2019.

Moving to reusable bags

In May 2018, The Warehouse Group announced that we would introduce compostable bags at checkouts as a more environmentally-friendly option and in response to customer feedback. In August, we confirmed that we would bypass this transitionary step, and start becoming plastic bag-free at checkouts from mid–2019. The move for The Warehouse, Warehouse Stationery, Noel Leeming and Torpedo7 stores aligned with the government's plans to impose a ban on single-use plastic checkout bags.

In 2009, The Warehouse was the first in New Zealand to introduce a charge for single-use plastic checkout bags, giving the net proceeds back to the local community. Since then, The Warehouse has reduced the number of plastic checkout bags substantially, and donated close to $4.5m to support grass-roots community organisations including kids' sports teams, food banks, disability support services and many others.

The Warehouse Group will continue to support the community through the sale of reusable bags at The Warehouse stores.

Waste and recycling

Waste increased 6.1% to 3,531 tonnes in FY18. Driving this increase were store development works and changes in what can be readily recycled, forcing us to landfill more.

We are part of a soft plastics recycling scheme, where we have recycling bins at 47 The Warehouse stores across New Zealand. To July 2018, we have collected over 72 tonnes of material, which translates into 36 million pieces of plastic.

We recycle polystyrene in our Noel Leeming Auckland stores. We have on-site polystyrene recycling equipment that compacts polystyrene by 90%; it is then transported internationally and made into art frames. Since February, we have compacted over 7,500 cubic metres of polystyrene, or enough to fill three Olympic-sized swimming pools.

Customers can recycle their old mobile phones at The Warehouse and their old toner cartridges at Warehouse Stationery.

Environmentally sustainable sourcing

We want to give our customers peace of mind that the products they buy are sourced in environmentally-sustainable ways. In FY15 we introduced a Wood Product Sourcing policy to ensure that wood products were not linked to deforestation. In FY16, we committed to stocking products containing palm oil from a certified sustainable source, and in FY17 we banned micro plastics.

Plastic and packaging

We are currently working on reducing single-use plastics and plastic in our packaging, while balancing the need to protect products from damage during shipping. Where possible we use recycled materials or recyclable materials. FY19 will see the introduction of a packaging team, tasked with improving the sustainability and efficiency of our home-brand product packaging.

#CleanUpNZ

The Great Community Clean Up is a partnership between The Warehouse and Neighbourly to encourage New Zealanders to keep our country clean and green by hosting clean-up events in their neighbourhood, taking place in April each year. It's about getting together with friends, colleagues and neighbours to foster community spirit and take responsibility for our environment.

People who registered were sent a Clean Up pack, which included gloves, rubbish bags, sanitiser, welcome instructions and a $10 The Warehouse gift card. This year, 60 public teams registered via Neighbourly.co.nz.

Over a 1,000 The Warehouse team members from 77 stores across New Zealand got involved in cleaning up their local beaches, parks and roadsides, removing an estimated 100 large bags of rubbish and recycling from the environment.

In Auckland, The Warehouse Sylvia Park team were joined by MP for Maungakiekie Denise Lee and members of the public for their clean up of the Mt Wellington shopping complex.

Over 1,000 The Warehouse team members from 77 stores across New Zealand got involved in cleaning up their local beaches, parks and roadsides, removing an estimated 100 large bags of rubbish and recycling from the environment.

Financial capital

Maintaining financial discipline to enable growth

Capital structure

The Warehouse Group's balance sheet is in good shape to provide sufficient capital headroom to weather potential downturns, and to fund investment in the Company's strategies. Our capital structure remains stable, with a current objective being to continue to reduce debt over the next few years. The share price has been under pressure due to a lack of confidence in our execution by the market, and from uncertainty around the future of the retail sector in general, in the face of increasing competition.

Our transformation programme has been designed specifically to improve the Group's ability to execute our strategies successfully, and focuses extensively on changing the way we work as a business, how we make and execute decisions, and follow through to realise benefits. Those new capabilities, combined with a very granular transformation plan to build our EBIT back to 7.0% will start delivering improved financial results over the next 18 months.

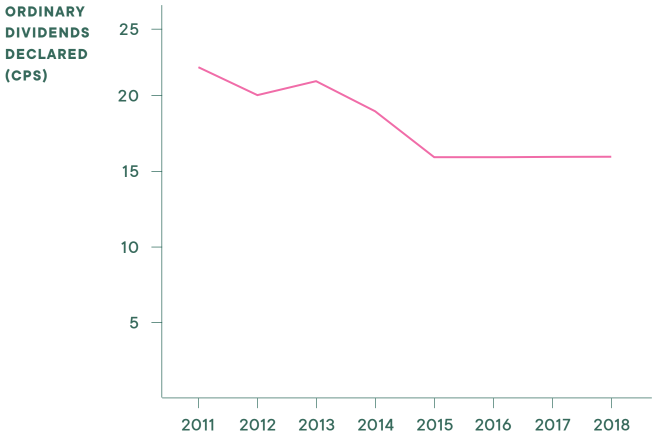
Asset base

The Warehouse Group's asset base has historically been centred around property and inventory based working capital. Over the past ten years, the property component has reduced as the Group has converted property assets into earnings generating business investments. Properties have typically been subject to sale and long term leaseback to secure favourable retail locations, with development of those properties moving from self-funded to a development partnership approach. The latest in this trend is the Lunn Avenue site, which is bare land, and has been sold during FY18 to G P Investments Limited. This is to to be developed into a retail complex, in which The Group has committed to two new leases for The Warehouse, Warehouse Stationery, and Noel Leeming. Typically, capital gains on those deals have been reinvested into favourable rental rates.

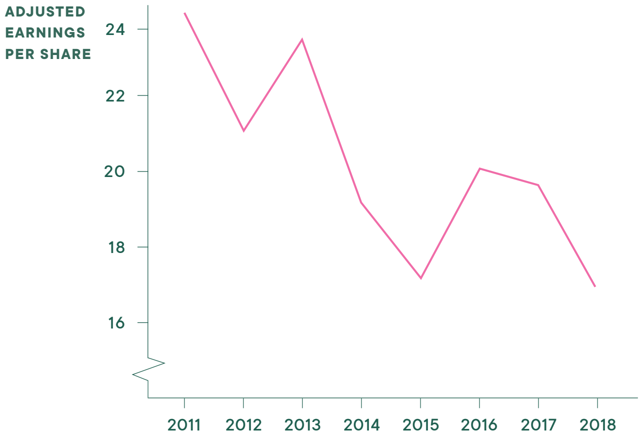
The property portfolio is valued at a historical cost of $79.2m, which is approximately $60.0m less than what we consider internally to be the fair value of these properties.

Working capital primarily reflects the funds tied up in inventory, and is cyclical based on the seasonal stock profile of the business. A major focus of business activity and the transformation programmes is to continually improve the way we manage our working capital, ranging from inventory management practices through to supplier trade payment terms. Levels of working capital have increased over time with the increased scale of the Group; however, we expect this to reduce in the future as the impact of transformation initiatives is realised.

DIVIDENDS DECLARED FY11-FY18



EARNINGS PER SHARE FY11-FY18



Working capital increased from $226.5m in the previous year to $236.6m in FY18 largely due to an increase in inventory, and the cut-off issues intrinsic in a balance date that changes as a consequence of our 4/5/4-week cycle. Our 12-month moving average working capital was $234.3m compared to $232.5m in FY17.

The Diners Club (NZ) finance book is classified as held for sale in our financial statements as that is part of a discontinued operation and we are in the process of working with Diners Club International regarding the future of this business.

Debt position

Our debt structure is straightforward, with core debt represented by our five-year senior bond, supported by flexible commercial lending facilities that accommodate our seasonal stock buying profiles.

Net debt decreased in FY18 from $218.3m to $162.3m. The reduction in net debt is primarily due to the sale of the discontinued Financial Services businesses which resulted in the repayment of the Group's securitised debt facility.

Our current objective is to reduce debt levels, noting that we maintain a comparatively high dividend payout ratio and are undergoing a material transformation of the business. This reflects our forecasts that the transformation can be accomplished within the existing capital investment envelope of the business because most changes are focused on improving business processes, supported by targeted technology investments. We have identified significant opportunities to improve working capital and free up cash flow from operations.

We run a reasonably conservative risk management policy, and want to be as well prepared as possible to withstand external shock events or a tightening of the credit cycle. Our approach to ensuring availability of credit is through maintaining a syndicated debt portfolio, and to continually retain sufficient headroom within the Group's current debt facilities to provide immediately available cover for unexpected activities.

The Group's target gearing is between 20% and 40%. As at 29 July 2018 the Group's gearing ratio is 25.3%. The Group's debt ratios are comfortably below the covenant levels required by our debt providers.

The Group issued a 5-year senior bond on the New Zealand Stock Exchange (NZSE) in June 2015 with a coupon rate of 5.3%. As at last quoted closing price of $1.03 and a market yield of 3.79%, the fair value of the bond as at balance date is $129.2m.

Other assets

All of our business investments are fully consolidated into the balance sheet. Other assets are primarily intangible assets, which include computer software and goodwill arising from acquisitions.

In FY18 the Group wrote off the remaining goodwill in the Torpedo7 Group, reflecting that the cash flows forecast from the business strategy, which is now focused on achieving scale through retail store expansion rather than mainly an online model, no longer support the carrying value of the goodwill.

All goodwill amounts are subject to annual impairment testing, and there is a satisfactory level of headroom in the carrying values of other goodwill items.

Capital investment

Our Group's capex increased from $64.0m in FY17 to $72.0m in FY18. This was driven by the investment required to deliver group-wide transformation. The capital requirements for the transformation will in part be funded through an uplift in operational performance. We have prioritised investment streams that deliver structural change to our financial performance and favour projects with payback horizons of between 12 and 18 months. Our largest calls on capex over the next few years are directed towards investments in technology and store improvements. We currently estimate capex for FY19 to be between $80m to $100m. We remain focused on delivering a pathway to achieve an EBIT of 7.0% over the course of our transformation.

Impact of NZ IFRS 16

The new accounting standard relating to leases, NZ IFRS 16, comes into effect from FY20, and will require a lessee to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for all material lease contracts. On adoption, the new standard will significantly gross-up the value of assets and liabilities presented on the Group's balance sheet and increase balance sheet gearing. Based on our initial detailed workings, we expect the impact when the Group adopts the new reporting standard (at the end of July 2019) to be an $871m increase in lease liabilities. This is a non-cash adjustment on the balance sheet and will not affect our lending covenants.

Another impact of the lease standard will be the effect on our EBIT. Rental expenses are effectively reclassified into an amortisation component, and an interest component to reflect the implied financing rate in the lease. This will result in an increase to EBIT, offset by a corresponding increase in interest expense. Our modelling at this time shows a minor expected net impact on the pre-tax expenses of around $2.6m.

Equity performance

In March 2017, we came out of the NZX50 Index when the equity indices were rebalanced based on the free float market capitalisation. Institutional holdings reduced slightly from 4.9% in October 2016 to 3.3% in May 2017 and the number of institutional investors has reduced from 63 to 33. We hope to rejoin the NZX50 Index as we deliver the benefits from our transformation and look to see the value created translate into capital growth.

Institutional holdings

The majority of our share register is owned by four investors who collectively hold 79.0% of the shares issued. This figure includes 27.0% held by the Group's founder, 21.3% by a charitable foundation and 21.6% Corporate. We have institutional holdings at 3.3% and 18.0% of shares held by retail investors. Our free float of approximately 21.0% means our stock experiences low liquidity and this characteristic currently inhibits the level of research coverage we attract.

Focus on investor relations

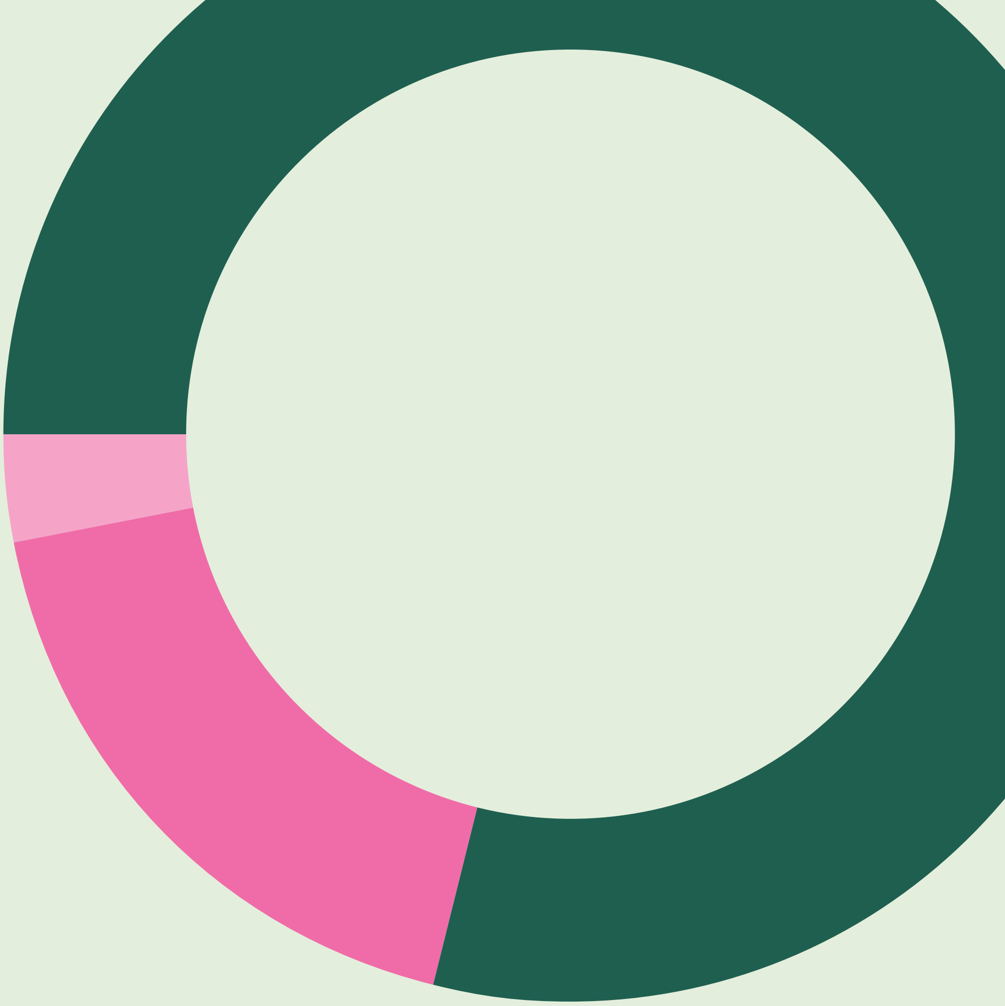
We look forward to being more proactive in our dialogue with the investment community. Our focus is to stimulate commentary and increase research coverage of our stock so our stock liquidity improves. In November 2017 we hosted an investor strategy day where we shared our transformation plans for the first time. We will look to have further engagement with the investor community with a series of roadshows in FY19 and present an update on our transformation progress and strategy.

SHARE REGISTER (AT TIME OF PUBLICATION)

79%
Strategic

18%
Retail

3%
Institutional



Appliance Shed asset and lease purchase

In August 2018 Noel Leeming purchased the key assets of the Appliance Shed. This sale has seen three former Appliance Shed sites in Auckland transitioned to Noel Leeming Clearance Centres (Glenfield, Henderson and St Lukes) and a fourth site becoming a Torpedo7 store (Manukau).

Dividend policy

Our dividend policy remains unchanged with a payout ratio between 75% and 85% of adjusted NPAT. In light of our transformation programme, we will revisit capital structure as appropriate and review our dividend policy on an annual basis to ensure it is aligned with the long-term capital needs of the business.

Hedging FX

We continue to hedge according to our treasury policy and review our positions as appropriate. The Group's biggest exposure is to currency fluctuations which arise from inventory supplied from overseas and priced in US dollars. To ensure gross margins can be achieved when the product selling prices are set, the Group purchases forward currency contracts which provide certainty of exchange rates. At balance date the Group held foreign currency contracts which locked in the exchange rate of approximately 65% of the Group's expected overseas purchases for the next 12 months. The average US dollar exchange rate on these contracts was $0.7153, which compared to a spot rate of $0.6795.

Sale of Financial Services business

In September 2017 we completed the sale of our Financial Services business– except for Diners Club (NZ) – to Finance Now, a subsidiary of SBS Bank. The sale contributed to a decrease in debt with securitised borrowings related to the sold subsidiaries of $45.1m.

The Warehouse Group Financial Statements

(FY18)

Financial Statements

For the 52 week period ended 29 July 2018

The financial statements have been presented in a style which attempts to make them less complex and more relevant to shareholders. The note disclosures have been grouped into six sections: 'basis of preparation', 'financial performance', 'operating assets and liabilities', 'financing and capital structure', 'financial risk management' and 'other disclosures'. Each section sets out the significant accounting policies in green text boxes applied in producing the relevant notes, along with details of any key judgements and estimates used. The purpose of this format is to provide readers with a clearer understanding of what drives financial performance of the Group.

Joan Withers
Chairman

Keith Smith
Deputy Chairman

CONTENTS

The Warehouse Group Limited is a limited liability company incorporated and domiciled in New Zealand. The address of its registered office is Level 4, 4 Graham Street, PO Box 2219, Auckland.

These financial statements have been approved for issue by the Board of Directors on 20 September 2018.

Consolidated Income Statement

For the 52 week period ended 29 July 2018

	NOTE	(52 WEEKS) 2018 $000	(52 WEEKS) 2017 $000
Continuing operations			
Retail sales	2.1	2,994,571	2,980,771
Cost of retail goods sold	8.1	(2,003,396)	(2,008,859)
Gross profit		991,175	971,912
Other income	3.1	8,118	7,069
Lease and occupancy expense	3.2	(159,587)	(155,584)
Employee expense	3.3	(524,673)	(492,546)
Depreciation and amortisation expense	2.2	(59,630)	(58,376)
Other operating expenses	3.4	(163,961)	(164,638)
Operating profit from continuing operations	2.1	91,442	107,837
Unusual items	5.0	(34,135)	(605)
Earnings before interest and tax from continuing operations		57,307	107,232
Net interest expense	10.2	(9,165)	(12,527)
Profit before tax from continuing operations		48,142	94,705
Income tax expense	4.1	(20,636)	(23,691)
Net profit for the period from continuing operations		27,506	71,014
Discontinued operations			
Loss from discontinued operations (net of tax)	15.1	(4,386)	(50,283)
Net profit for the period		23,120	20,731
Attributable to:			
Shareholders of the parent		22,878	20,429
Minority interests	11.4	242	302
		23,120	20,731
Profit attributable to shareholders of the parent relates to:			
Profit from continuing operations		27,264	70,712
Loss from discontinued operations		(4,386)	(50,283)
		22,878	20,429
Earnings per share attributable to shareholders of the parent			
Basic earnings per share	6.0	6.6 cents	5.9 cents
Diluted earnings per share	6.0	6.6 cents	5.9 cents
Earnings per share attributable to shareholders of the parent from continuing operations			
Basic earnings per share	6.0	7.9 cents	20.5 cents
Diluted earnings per share	6.0	7.9 cents	20.4 cents

Consolidated Statement of Comprehensive Income

For the 52 week period ended 29 July 2018

	NOTE	(52 WEEKS) 2018 $000	(52 WEEKS) 2017 $000
Net profit for the period		23,120	20,731
Items that may be reclassified subsequently to the income statement			
Movement in derivative cash flow hedges		35,346	9,484
Movement in de-designated derivative hedges		606	606
Tax relating to movement in hedge reserve		(10,067)	(2,825)
Other comprehensive income		25,885	7,265
Total comprehensive income		49,005	27,996
Attributable to:			
Shareholders of the parent		48,763	27,694
Minority interest	11.4	242	302
Total comprehensive income		49,005	27,996
Attributable to:			
Total comprehensive income from continuing operations		53,391	78,279
Total comprehensive loss from discontinued operations		(4,386)	(50,283)
Total comprehensive income		49,005	27,996
Total comprehensive income from continuing operations attributable to:			
Shareholders of the parent		53,149	77,977
Minority interest	11.4	242	302
Total comprehensive income		53,391	78,279

The above consolidated income statement and statement of comprehensive income should be read in conjunction with the accompanying notes.

Consolidated Balance Sheet

As at 29 July 2018

	NOTE	2018	2017
		$000	$000
ASSETS			
Current assets			
Cash and cash equivalents	10.1	26,455	47,492
Trade and other receivables	8.2	79,758	75,632
Inventories	8.1	523,840	487,274
Derivative financial instruments	12.2	19,030	-
Taxation receivable	4.2	-	4,959
		649,083	615,357
Assets held for sale	17.0	7,560	77,142
Total current assets		656,643	692,499
Non current assets			
Property, plant and equipment	9.1	238,592	252,175
Intangible assets	9.2	115,331	127,726
Derivative financial instruments	12.2	764	541
Deferred taxation	4.3	38,418	40,911
Total non current assets		393,105	421,353
Total assets	2.3	1,049,748	1,113,852
LIABILITIES			
Current liabilities			
Borrowings	10.1	43,840	49,593
Trade and other payables	8.3	279,028	267,304
Derivative financial instruments	12.2	-	17,299
Taxation payable	4.2	6,388	-
Provisions	8.4	67,422	49,769
		396,678	383,965
Securitised borrowings associated with assets held for sale	10.1	-	56,717
Other liabilities directly associated with assets held for sale	17.0	3,886	5,443
Total current liabilities		400,564	446,125
Non current liabilities			
Borrowings	10.1	144,954	159,453
Derivative financial instruments	12.2	3,394	2,507
Provisions	8.4	20,552	19,378
Total non current liabilities		168,900	181,338
Total liabilities	2.3	569,464	627,463
Net assets		480,284	486,389
EQUITY			
Contributed equity	11.2	359,457	358,046
Reserves	11.3	11,472	(13,036)
Retained earnings		108,476	140,512
Total equity attributable to shareholders		479,405	485,522
Minority interest	11.4	879	867
Total equity		480,284	486,389

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

Consolidated Statement of Cash Flows

For the 52 week period ended 29 July 2018

	NOTE	(52 WEEKS) 2018 $000	(52 WEEKS) 2017 $000
Cash flows from operating activities			
Cash received from customers		3,003,199	2,995,015
Payments to suppliers and employees		(2,875,770)	(2,840,604)
Income tax paid		(14,082)	(27,454)
Interest paid		(9,307)	(16,008)
		104,040	110,949
Loans repaid by finance business customers		50,469	171,188
New loans to finance business customers		(46,595)	(154,049)
Net cash flows from operating activities		107,914	128,088
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment and computer software		12,227	79,714
Proceeds from business disposal	16.0	17,291	-
Minority interest capital contribution		-	750
Purchase of property, plant and equipment and computer software		(70,229)	(70,575)
Contingent and deferred acquisition consideration		-	(1,000)
Other items		-	(327)
Net cash flows from investing activities		(40,711)	8,562
Cash flows from financing activities			
Repayment of bank borrowings		(20,444)	(79,821)
Repayment of securitised borrowings		(11,555)	(3,408)
Repayment of finance leases		(456)	(1,196)
Purchase of treasury stock	11.2	-	(2,148)
Treasury stock dividends received		267	290
Dividends paid to parent shareholders		(55,822)	(52,404)
Dividends paid to minority shareholders		(230)	(352)
Net cash flows from financing activities		(88,240)	(139,039)
Net cash flow		(21,037)	(2,389)
Opening cash position		47,492	49,881
Closing cash position	10.1	26,455	47,492

Reconciliation of Operating Cash Flows

For the 52 week period ended 29 July 2018

	NOTE	(52 WEEKS) 2018 $000	(52 WEEKS) 2017 $000
Net profit		23,120	20,731
Non-cash items			
Depreciation and amortisation expense	2.2	59,630	60,191
Intangible asset impairment	9.2	25,622	40,061
Share based payment expense	3.3	353	1,283
Interest capitalisation		467	524
Suppliers contributions		(2,694)	-
Movement in deferred tax	4.3	(5,826)	(555)
Movement in de-designated derivative hedges		436	436
Total non-cash items		77,988	101,940
Items classified as investing or financing activities			
Loss/(Gain) on sale of property, plant and equipment		397	(9,979)
Loss on business disposal and related costs		1,421	946
Supplementary dividend tax credit	4.2	327	378
Total investing and financing adjustments		2,145	(8,655)
Changes in assets and liabilities			
Trade and other receivables		(3,715)	4,248
Finance business receivables		3,305	6,210
Inventories		(36,566)	9,895
Trade and other payables		11,522	7,557
Provisions		18,768	(6,811)
Income tax		11,347	(7,027)
Total changes in assets and liabilities		4,661	14,072
Net cash flows from operating activities		107,914	128,088

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

Consolidated Statement of Changes in Equity

For the 52 week period ended 29 July 2018

	NOTE	SHARE CAPITAL	TREASURY SHARES	HEDGE RESERVES	FOREIGN CURRENCY TRANSLATION RESERVE	EMPLOYEE SHARE BENEFITS RESERVE	RETAINED EARNINGS	MINORITY INTEREST	TOTAL EQUITY
		$000	$000	$000	$000	$000	$000	$000	$000
For the 52 week period ended 29 July 2018									
Balance at the beginning of the period		365,517	(7,471)	(15,174)	-	2,138	140,512	867	486,389
					-				
Net profit for the period		-	-	-	-	-	22,878	242	23,120
Movement in foreign currency translation reserve		-	-	-	(5)	-	-	-	(5)
Movement in derivative cash flow hedges		-	-	35,346	-	-	-	-	35,346
Movement in de-designated derivative hedges		-	-	606	-	-	-	-	606
Tax relating to movement in hedge reserve	4.2, 4.3	-	-	(10,067)	-	-	-	-	(10,067)
Total comprehensive income		-	-	25,885	(5)	-	22,878	242	49,000
Contributions by and distributions to owners									
Share rights charged to the income statement		-	-	-	-	353	-	-	353
Share rights vested		-	1,411	-	-	(1,725)	314	-	-
Dividends paid	7.1, 11.4	-	-	-	-	-	(55,495)	(230)	(55,725)
Treasury stock dividends received		-	-	-	-	-	267	-	267
Balance at the end of the period		365,517	(6,060)	10,711	(5)	766	108,476	879	480,284
		(note: 11.2)	(note: 11.2)	(note: 11.3)	(note: 11.3)	(note: 11.3)		(note: 11.4)	
For the 52 week period ended 30 July 2017									
Balance at the beginning of the period		365,517	(7,832)	(22,439)	-	3,623	171,560	167	510,596
Profit for the period		-	-	-	-	-	20,429	302	20,731
Movement in derivative cash flow hedges		-	-	9,484	-	-	-	-	9,484
Movement in de-designated derivative hedges		-	-	606	-	-	-	-	606
Tax relating to movement in hedge reserve	4.2, 4.3	-	-	(2,825)	-	-	-	-	(2,825)
Total comprehensive income		-	-	7,265	-	-	20,429	302	27,996
Contributions by and distributions to owners									
Share rights charged to the income statement		-	-	-	-	1,283	-	-	1,283
Minority interest capital contribution		-	-	-	-	-	-	750	750
Share rights vested		-	2,509	-	-	(2,768)	259	-	-
Dividends paid	7.1, 11.4	-	-	-	-	-	(52,026)	(352)	(52,378)
Treasury stock dividends received		-	-	-	-	-	290	-	290
Purchase of treasury stock		-	(2,148)	-	-	-	-	-	(2,148)
Balance at the end of the period		365,517	(7,471)	(15,174)	-	2,138	140,512	867	486,389
		(note: 11.2)	(note: 11.2)	(note: 11.3)	(note: 11.3)	(note: 11.3)		(note: 11.4)	

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Notes to and forming part of the Financial Statements

For the 52 week period ended 29 July 2018

1.0 BASIS OF PREPARATION

1.1 Reporting entity

The Warehouse Group Limited (the Company) and its subsidiaries (together the Group) trade in the New Zealand retail and financial services sectors. The Company is a limited liability company incorporated and domiciled in New Zealand. The Group is registered under the Companies Act 1993 and is an FMC Reporting Entity under Part 7 of the Financial Markets Conduct Act (FMCA) 2013. The address of its registered office is Level 4, 4 Graham Street, PO Box 2219, Auckland. The Company is listed on the New Zealand Stock Exchange (NZX).

1.2 Compliance statement

These financial statements have been prepared in accordance with Generally Accepted Accounting Practice (GAAP), FMCA 2013 and NZX listing rules. They comply with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS), other applicable Financial Reporting Standards, and authoritative notes as appropriate for profit oriented entities. The financial statements also comply with International Financial Reporting Standards (IFRS).

1.3 Basis of preparation

The measurement basis adopted in the preparation of these financial statements is historic cost, as modified by the revaluation of certain assets and liabilities at fair value. The financial statements are presented in New Zealand dollars and all values are rounded to the nearest thousand, unless otherwise stated. Certain comparative amounts have been reclassified to conform with the current year's presentation.

The principal accounting policies applied in the preparation of these financial statements are set out in the accompanying notes where an accounting choice is provided by NZ IFRS, is new or has changed, is specific to the Group's operations or is significant or material. Where NZ IFRS does not provide any accounting policy choice, the Group has applied the requirements of NZ IFRS but a detailed accounting policy has not been specifically included.

The Group sold the most of its Financial Services business in September 2017 and is actively seeking a buyer for the remaining part of this business segment. The results for the Financial Services Group have been classified as a discontinued operation and are presented as a single amount in the income statement and form part of 'assets held for sale' and 'liabilities associated with assets held for sale' on the balance sheet.

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries. Material subsidiaries at year end are listed below.

				PERCENTAGE OWNERSHIP	
NAME OF ENTITY	PRINCIPAL ACTIVITY	CHANGE	NOTE	2018	2017
The Warehouse Limited	Retail			100	100
Warehouse Stationery Limited	Retail			100	100
Noel Leeming Group Limited	Retail			100	100
Torpedo7 Limited	Retail			100	100
Torpedo7 Fitness Limited	Retail	Amalgamated with Torpedo7 Limited		N/A	100
Torpedo7 Supplements Limited	Retail	Amalgamated with Torpedo7 Limited		N/A	100
Diners Club (NZ) Limited	Financial Services	Classified as discontinued operations	15	100	100
TW Financial Services Operations Limited	Financial Services	Sold September 2017	16	-	100
The Warehouse Financial Services Limited	Financial Services	Sold September 2017	16	-	100
TW Money Limited	Financial Services	Sold September 2017	16	-	100
Eldamos Investments Limited	Property			100	100
The Warehouse Nominees Limited	Investment			100	100
TWP No.3 Limited	Wholesale			100	100

1.4 Reporting period

These financial statements are for the 52 week period 31 July 2017 to 29 July 2018. The comparative period is for the 52 week period 1 August 2016 to 30 July 2017. The Group operates on a weekly trading and reporting cycle which means most financial years represent a 52 week period, a 53 week year occurring once every 5 to 6 years.

1.5 Critical accounting judgements, estimates and assumptions

The preparation of the financial statements requires the Group to make judgements, estimates and assumptions that effect the reported amounts of assets and liabilities at balance date and the reported amounts of revenues and expenses during the year. Judgements and estimates which are material to the financial statements are found in the following notes:

(a) Inventory (note 8.1)

(b) Intangible assets (note 9.2)

(c) Derivative financial instruments (note 12.2)

Notes to the Financial Statements - Financial Performance

For the 52 week period ended 29 July 2018

2.0 SEGMENT INFORMATION

2.1 Operating performance

	NOTE	REVENUE 2018	REVENUE 2017	OPERATING PROFIT 2018	OPERATING PROFIT 2017	RETAIL OPERATING MARGIN 2018	RETAIL OPERATING MARGIN 2017
		$000	$000	$000	$000		
The Warehouse		1,716,596	1,761,399	71,440	84,531	4.2 %	4.8 %
Warehouse Stationery		263,766	278,181	10,590	15,743	4.0 %	5.7 %
Noel Leeming		880,453	810,705	31,163	19,264	3.5 %	2.4 %
Torpedo7		163,402	157,726	(1,447)	2,675	−0.9 %	1.7 %
Digital Retail venture		-	-	(1,133)	-		
Other Group operations		9,655	8,603	(19,171)	(14,376)		
Inter-segment eliminations		(39,301)	(35,843)	-	-		
Retail Group		2,994,571	2,980,771	91,442	107,837	3.1 %	3.6 %
Unusual items	5.0			(34,135)	(605)		
Earnings before interest and tax from continuing operations				57,307	107,232		
Net interest expense	10.2			(9,165)	(12,527)		
Profit before tax from continuing operations				48,142	94,705		

Operating segments

The Group has four operating segments trading in the New Zealand retail sector and a start-up venture to expand the Group's digital offering. These segments form the basis of internal reporting used by senior management and the Board of Directors to monitor and assess performance and assist with strategy decisions.

Each of the four main retail segments represent a distinct retail chain, synonymous with its segment name. Customers can purchase product from the retail chains either online or through the Group's physical retail store network The Group's store network currently has 93 (2017: 92) The Warehouse stores, 70 (2017: 69) Warehouse Stationery stores, 74 (2017: 77) Noel Leeming stores and 14 (2017: 12) Torpedo7 stores. The Warehouse predominantly sells general merchandise and apparel, Noel Leeming sells technology and appliance products, Torpedo7 sells sporting equipment and, as the name indicates, Warehouse Stationery sells stationery.

Group support office functions, such as Information Systems, Finance, Brand Executives and People Support, are operated using a shared services model which allocates the costs of these support office functions to individual brands calculated on an arm's length basis. The remaining support office functions, which relate to corporate and governance functions, a property company and the Group's interest in a chocolate factory, are not allocated and form the main components of the "Other Group operations" segment.

2.2 Capital expenditure, depreciation and amortisation

	NOTE	CAPITAL EXPENDITURE 2018	CAPITAL EXPENDITURE 2017	DEPRECIATION AND AMORTISATION 2018	DEPRECIATION AND AMORTISATION 2017
		$000	$000	$000	$000
The Warehouse		41,353	36,374	40,979	40,819
Warehouse Stationery		1,536	3,861	5,498	6,722
Noel Leeming		11,294	10,382	10,634	8,421
Torpedo7		2,871	581	1,051	1,059
Digital Retail venture		4,363	-	-	-
Other Group operations		10,238	10,253	1,468	1,355
Continuing Retail Group		71,655	61,451	59,630	58,376
Discontinued operations		335	2,513	-	1,815
Total Group		71,990	63,964	59,630	60,191
Comprising					
Property, plant and equipment	9.1	51,185	51,833	52,368	52,626
Computer software	9.2	20,805	12,131	7,262	7,565
Total Group		71,990	63,964	59,630	60,191

2.3 Balance sheet information

	NOTE	TOTAL ASSETS 2018	TOTAL ASSETS 2017	TOTAL LIABILITIES 2018	TOTAL LIABILITIES 2017
		$000	$000	$000	$000
The Warehouse		487,028	461,772	217,398	182,389
Warehouse Stationery		66,323	72,176	13,196	32,746
Noel Leeming		176,967	160,287	122,134	108,008
Torpedo7		53,823	51,742	11,222	11,269
Digital Retail venture		4,390	-	332	-
Other Group operations		88,011	90,229	2,720	2,039
Continuing Retail Group		876,542	836,206	367,002	336,451
Discontinued operations		7,560	77,142	3,886	5,443
Operating assets / liabilities		884,102	913,348	370,888	341,894
Unallocated assets / liabilities					
Cash and borrowings	10.1	26,455	47,492	188,794	265,763
Derivative financial instruments	12.2	19,794	541	3,394	19,806
Intangible goodwill and brands	9.2	80,979	106,601	-	-
Taxation assets / liabilities	4.2, 4.3	38,418	45,870	6,388	-
Total Group		1,049,748	1,113,852	569,464	627,463

Notes to the Financial Statements - Financial Performance

For the 52 week period ended 29 July 2018

3.0 INCOME AND EXPENSES

Retail sales
Retail sales are recognised at the point of sale when the customer receives the goods or delivery takes place. Retail revenue from the sale of goods is recognised at the fair value of the consideration received or receivable, net of returns, discounts and excluding GST.

Lease expense
Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

Employee expense
The employee expense includes wages and salaries, performance based compensation and share based compensation paid or accruing to team members. Details of how these entitlements are calculated are found in notes 8.4 and 14.0.

3.1 Other income	**2018**	**2017**
	$000	$000
Tenancy rents received	4,002	3,957
Other	4,116	3,112
Other income	8,118	7,069

3.2 Lease and occupancy expense	**2018**	**2017**
	$000	$000
Operating lease costs	125,295	123,075
Other occupancy costs	34,292	32,509
Lease and occupancy expense	159,587	155,584

3.3 Employee expense	**2018**	**2017**
	$000	$000
Wages and salaries	490,610	475,692
Directors' fees	700	798
Performance based compensation	33,010	14,773
Equity settled share based payments expense	353	1,283
Employee expense	524,673	492,546

3.4 Other operating expenses	**2018**	**2017**
	$000	$000
Other operating expenses include:		
Provision for bad and doubtful debts	1,174	1,293
Loss on disposal of plant and equipment	366	716
Donations	663	634
Net foreign currency exchange (gain)/loss	(92)	105

3.5 Auditors' fees	**2018**	**2017**
	$000	$000
Auditing the Group financial statements	660	579
Reviewing the half year financial statements	90	90
Other services	53	43
Total fees paid to PricewaterhouseCoopers	803	712

Audit Fees - Corporate Governance

Fees paid to PricewaterhouseCoopers for other services largely related to treasury policy advice. In accordance with the Group's policies regarding audit governance and independence this work was approved by the Group's Audit and Risk Committee. The Group's policy permits the audit firm to provide non-audit services that are considered to be not in conflict with the preservation of the independence of the auditor subject to Audit and Risk Committee approval.

4.0 TAXATION

A reconciliation between the tax expense recognised in the income statement and tax expense calculated per the statutory income tax rate is detailed below.

4.1 Taxation - Income statement	NOTE	2018	2017
		$000	$000
Profit before tax from continuing operations		48,142	94,705
Loss before tax from discontinued operations	15.1	(5,262)	(53,894)
Profit before tax		42,880	40,811
Taxation calculated at 28%		12,006	11,427
Adjusted for the tax effect of:			
Intangible asset impairment		7,174	11,217
Share based payments		(296)	(343)
Non deductible expenditure		1,563	1,336
Depreciation adjustments on building disposals and prior year business acquisitions	5.0	-	(2,963)
Income tax over provided in prior year		(687)	(594)
Income tax expense		19,760	20,080
Adjust for income tax expense attributable to losses from discontinued operations	15.1	876	3,611
Income tax expense attributable to continuing operations		20,636	23,691
Income tax expense comprises:			
Current year income tax payable	4.2	25,586	20,635
Deferred taxation	4.3	(5,826)	(555)
Income tax expense		19,760	20,080

Income taxation

The income tax expense for the period is the tax payable on the current year's taxable income based on the income tax rate adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses. Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in subsidiaries and associates where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Current and deferred tax balances attributable to amounts recognised in equity are similarly recognised in equity.

Goods and services tax ("GST")

The income statement and statement of cash flows have been prepared so that all components are stated exclusive of GST. All items in the balance sheet are stated net of GST with the exception of receivables and payables which include GST invoiced.

The following table details the movement in income tax receivable/(payable) during the current and prior year.

4.2 Taxation - Balance sheet current taxation	NOTE	2018	2017
		$000	$000
Opening balance		4,959	(2,068)
Current year income tax payable	4.1	(25,586)	(20,635)
Net taxation paid		14,082	27,454
Transfer from cash flow hedge reserve		(170)	(170)
Supplementary dividend tax credit		327	378
Closing balance		(6,388)	4,959

The following table details the major deferred income tax liabilities and assets recognised by the Group and the movements during the current and prior year.

4.3 Taxation - Balance sheet deferred taxation	NOTE	BRAND NAMES	INVENTORY	PROPERTY, PLANT SOFTWARE & EQUIPMENT	EMPLOYEE PROVISIONS	DERIVATIVES	OTHER	TOTAL
For the 52 week period ended 29 July 2018		$000	$000	$000	$000	$000	$000	$000
Opening balance		(6,586)	12,530	8,101	13,102	5,506	8,258	40,911
Charged/(credited) to the income statement	4.1	-	2,857	2,431	953	-	(415)	5,826
Net charged to other comprehensive income		-	-	-	-	(9,897)	-	(9,897)
Disposal of subsidiary		-	-	2,283	(122)	-	(583)	1,578
Closing balance		(6,586)	15,387	12,815	13,933	(4,391)	7,260	38,418
For the 52 week period ended 30 July 2017								
Opening balance		(6,586)	12,604	9,001	12,844	8,161	6,987	43,011
Charged/(credited) to the income statement	4.1	-	(74)	(900)	258	-	1,271	555
Net charged to other comprehensive income		-	-	-	-	(2,655)	-	(2,655)
Closing balance		(6,586)	12,530	8,101	13,102	5,506	8,258	40,911

Notes to the Financial Statements - Financial Performance

For the 52 week period ended 29 July 2018

5.0 ADJUSTED NET PROFIT

Adjusted net profit reconciliation	NOTE	2018	2017
		$000	$000
Adjusted net profit		59,015	68,185
Add back: Unusual items			
Gain on property disposals		218	11,455
Goodwill impairment (Torpedo7)	9.2	(25,622)	-
Restructuring costs		(8,731)	(12,060)
Unusual items before taxation		(34,135)	(605)
Income tax relating to unusual items		2,384	169
Income tax expense related to depreciation adjustments on building disposals and prior year business acquisitions	4.1	-	2,963
Unusual items after taxation		(31,751)	2,527
Net profit from continuing operations attributable to shareholders of the parent		27,264	70,712

Certain transactions can make the comparison of profits between years difficult. The Group uses adjusted net profit as a key indicator of performance and considers it provides a better understanding of underlying business performance and the Group also uses it as the basis for determining dividend payments. 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 from the disposal of properties or investments, goodwill impairment, restructuring costs, direct costs and adjustments relating to business acquisitions or disposals and costs connected with restructuring the Group.

Unusual Items

(a) Property disposals during the year relate to the sale of surplus land for a net consideration of $12.036 million which realised a pre-tax profit of $0.218 million. In the prior year property disposals related to the sale of 3 store properties and surplus land sold which sold for a combined consideration of $79.304 million and realised a pre-tax profit of $11.455 million.

(b) The Group has fully impaired the Goodwill of Torpedo7 ($25.622 million) following its annual impairment review (refer note 9.2).

(c) In January 2017 the Group commenced a restructuring programme to change its business operating model. The changes are designed to drive an improvement in financial performance, reduce costs and generate greater customer relevance. The changes focused primarily on simplification to reduce complexities, drive efficiencies and increase business agility. This involved strengthening and consolidating the various Group support service functions to drive synergy benefits, deliver efficiencies and reduce complexity. It also involved combining The Warehouse and Warehouse Stationery and similarly combining the Noel Leeming and Torpedo7 Groups by integrating their operating structures and executive leadership teams.

The first stage of this process has concluded and a second phase has started. This second phase is more granular than the initial programme and involves the Group partnering with a management consultancy firm to assist with the transformation process and strategy implementation.

6.0 EARNINGS PER SHARE

Earnings per share calculation	NOTE	2018	2017
Net profit attributable to shareholders of the parent ($000s)		22,878	20,429
Net profit from continuing operations attributable to shareholders of the parent ($000s)		27,264	70,712
Adjusted net profit ($000s)	5.0	59,015	68,185
Basic			
Weighted average number of ordinary shares (net of treasury stock) on issue (000s)		344,916	344,802
Basic earnings per share (cents)		6.6	5.9
Basic earnings per share from continuing operations (cents)		7.9	20.5
Adjusted basic earnings per share (cents)		17.1	19.8
Diluted			
Weighted average number of ordinary shares (net of treasury stock) on issue adjusted for unvested share rights (000s)		345,332	346,355
Diluted earnings per share (cents)		6.6	5.9
Diluted earnings per share from continuing operations (cents)		7.9	20.4
Adjusted diluted earnings per share (cents)		17.1	19.7

Earnings per share (EPS) is the amount of post tax profit attributable to each share. Basic EPS is calculated by dividing net profit attributable to shareholders by the weighted average number of ordinary shares (net of treasury stock) outstanding during the year.

Diluted EPS adjusts for any commitments the Group has to issue shares in the future that would decrease the basic EPS. The Group has two types of dilutive potential ordinary shares (performance share rights and award share rights - refer note 14.0). Diluted EPS is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of the share rights.

Adjusted basic EPS and adjusted diluted EPS are similarly calculated using adjusted net profit as the numerator.

7.0 DIVIDENDS

7.1 Dividends paid	2018	2017	2018	2017
	$000	$000	CENTS PER SHARE	CENTS PER SHARE
Prior year final dividend	20,811	17,342	6.0	5.0
Interim dividend	34,684	34,684	10.0	10.0
Total dividends paid	55,495	52,026	16.0	15.0

Dividend policy

The Board declares two dividends annually in respect of the half year (interim dividend) and full year results (final dividend). The Group's dividend policy is to pay a dividend to shareholders of between 75% and 85% of the Group's adjusted net profit.

All dividends paid were fully imputed.

7.2 Dividends policy reconciliation	NOTE	2018	2017	2018	2017
		$000	$000	CENTS PER SHARE	CENTS PER SHARE
Interim dividend		34,684	34,684	10.0	10.0
Final dividend (declared after balance date)		20,811	20,811	6.0	6.0
Total dividends paid and declared in respect of the current and prior financial years		55,495	55,495	16.0	16.0
Group adjusted net profit	5.0	59,015	68,185		
Pay-out ratio (%)		94.0 %	81.4 %		

On 20 September 2018 the Board declared a final fully imputed ordinary dividend of 6.0 cents per share to be paid on 6 December 2018 to all shareholders on the Group's share register at the close of business on 23 November 2018.

7.3 Imputation credit account	2018	2017
	$000	$000
Imputation credits at balance date available for future distribution	117,178	120,296

The above amounts represent the balance of the Group's imputation credit account at balance date adjusted for imputation credits that will arise from the payment of the amount of the provision for income taxation. Imputation is a mechanism that a company uses to pass on credits for tax it has paid on its profits, to its shareholders when it pays dividends. These imputation credits offset the amount of taxation that the New Zealand resident shareholders would otherwise be liable to pay on those dividends, so they do not have to pay 'double tax'.

8.0 WORKING CAPITAL

8.1 Inventory	2018	2017
	$000	$000
Finished goods	494,028	457,455
Inventory adjustments	(28,981)	(22,547)
Retail stock	465,047	434,908
Goods in transit from overseas	58,793	52,366
Inventory	523,840	487,274

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using a weighted average method and includes expenditure incurred to purchase the inventory and transport it to its current location. Net realisable value is the estimated selling price of the inventory in the ordinary course of business less costs necessary to make the sale. The cost of inventories consumed during the year are recognised as an expense and included in retail cost of goods sold in the income statement.

Significant judgements and estimates
Assessing provisions for inventory obsolescence, net realisable value and shrinkage involves making judgements and estimates in relation to future selling prices and expected shrinkage rates between the most recent store stock counts and balance date. Shrinkage is a reduction in inventory due to shoplifting, employee theft, paperwork errors and supplier fraud. The Group considers a wide range of factors including historical data, current trends and product information from buyers as part of the process to determine the appropriate value of these provisions.

Goods in transit from overseas
Goods in transit from overseas are recognised when title to the goods is passed to the Group. Title to the goods is passed when valid documents (which usually include a 'bill of lading') are received, and terms, as set out in a supplier's letter of credit or in the supplier's terms of trade, are met.

8.2 Trade and other receivables	2018	2017
	$000	$000
Trade receivables	45,677	45,207
Prepayments	14,110	13,997
Rebate accruals and other debtors	19,971	16,428
Trade and other receivables	79,758	75,632

Trade receivables arise from sales made to customers on credit or through the collection of rebates from suppliers not otherwise deducted from suppliers' payable accounts. Trade receivables are non-interest bearing and are generally on 30 to 60 day terms. Trade receivables are initially recognised at the value of the invoice sent to the customer and subsequently at the amount considered recoverable. Collectability of trade and other receivables is reviewed on an ongoing basis and debts that are known to be uncollectible are either impaired or written off when they are identified.

8.3 Trade and other payables	2018	2017
	$000	$000
Trade creditors and accruals	211,171	204,784
Goods in transit creditors	24,545	21,187
Capital expenditure creditors	1,864	2,802
Goods and services tax	13,457	10,768
Reward schemes, lay-bys, Christmas Club deposits and gift vouchers	16,004	15,820
Interest accruals	968	1,089
Payroll accruals	11,019	10,854
Trade and other payables	279,028	267,304

Trade payables represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are normally unsecured and are usually settled within 60 days of recognition. Due to the short term nature of these payables, their carrying value is assumed to approximate their fair value.

8.4 Provisions

	CURRENT		NON-CURRENT		TOTAL	
	2018	2017	2018	2017	2018	2017
	$000	$000	$000	$000	$000	$000
Employee entitlements	62,427	43,720	13,636	11,973	76,063	55,693
Make good provision	1,017	1,123	6,916	6,889	7,933	8,012
Sales return provision	3,724	3,708	-	-	3,724	3,708
Onerous lease	254	1,218	-	516	254	1,734
Total provisions	67,422	49,769	20,552	19,378	87,974	69,147

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

Employee entitlements

(i) Wages and salaries, annual leave and sick leave

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

(ii) Performance based compensation

The Group recognises a liability and expense for incentives payable to employees where either a contractual or constructive obligation arises to pay an employee based on achieving an agreed level of individual and company performance.

(iii) Long service leave

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

Make good provision

The Group has an obligation to restore certain leasehold sites to their original condition when the lease expires. This provision represents the present value of the expected future make good commitment. Amounts charged to the provision represent both make good costs incurred and costs incurred which mitigate the final liability prior to the lease expiry.

Sales return provision

The Group provides various guarantees and warranties to replace, repair or refund customers for faulty or defective products sold. This provision represents the estimated sales return obligation at balance date based on historical sale return rates.

Onerous lease

A provision for an onerous lease is recognised when the Group retains a lease obligation after vacating a property before the expiry of the lease term.

9.0 NON CURRENT ASSETS

9.1 Property, plant and equipment

		LAND AND BUILDINGS		PLANT AND EQUIPMENT		WORK IN PROGRESS		TOTAL	
	NOTE	2018	2017	2018	2017	2018	2017	2018	2017
		$000	$000	$000	$000	$000	$000	$000	$000
Cost		87,833	145,647	603,888	570,260	20,019	23,606	711,740	739,513
Accumulated depreciation		(10,650)	(10,318)	(447,871)	(405,875)	-	-	(458,521)	(416,193)
Opening carrying amount		77,183	135,329	156,017	164,385	20,019	23,606	253,219	323,320
Additions	2.2	15,003	10,803	39,563	44,617	(3,381)	(3,587)	51,185	51,833
Disposals		(11,818)	(67,820)	(1,614)	(1,488)	-	-	(13,432)	(69,308)
Depreciation	2.2	(1,190)	(1,129)	(51,178)	(51,497)	-	-	(52,368)	(52,626)
Closing carrying amount		79,178	77,183	142,788	156,017	16,638	20,019	238,604	253,219
Cost		91,018	87,833	638,828	603,888	16,638	20,019	746,484	711,740
Accumulated depreciation		(11,840)	(10,650)	(496,040)	(447,871)	-	-	(507,880)	(458,521)
Closing carrying amount		79,178	77,183	142,788	156,017	16,638	20,019	238,604	253,219
Less: Assets held for sale	17.0	-	-	(12)	(1,044)	-	-	(12)	(1,044)
Property, plant and equipment		79,178	77,183	142,776	154,973	16,638	20,019	238,592	252,175

Property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. The cost of purchased property, plant and equipment is the value of the consideration given to acquire the assets and the value of other directly attributable costs, which have been incurred in bringing the assets to the location and condition necessary for their intended use.

Property, plant and equipment are depreciated on a straight line basis to allocate the cost, less any residual value, over their useful life.
The estimated useful life of property, plant and equipment are as follows:

- Freehold land — indefinite
- Freehold buildings — 50 - 100 years
- Plant and equipment — 3 - 12 years
- Work in progress — not depreciated

The Group annually reviews the carrying amounts of property, plant and equipment for impairment. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. In assessing whether an asset is impaired, reference is made to individual store profitability and any other known events or circumstances that may indicate that the carrying amount of an asset may be impaired.

Gains and losses on disposals of assets are determined by comparing proceeds with the carrying amount. These gains and losses are included in the income statement. Costs incurred on repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

9.2 Intangible assets

		GOODWILL		BRAND NAMES		COMPUTER SOFTWARE		TOTAL	
	NOTE	2018	2017	2018	2017	2018	2017	2018	2017
		$000	$000	$000	$000	$000	$000	$000	$000
Cost		117,094	117,094	23,523	23,523	133,178	124,401	273,795	265,018
Impairment and accumulated amortisation		(34,016)	(11,302)	-	-	(105,033)	(83,048)	(139,049)	(94,350)
Opening carrying amount		83,078	105,792	23,523	23,523	28,145	41,353	134,746	170,668
Additions	2.2	-	-	-	-	20,805	12,131	20,805	12,131
Disposals		-	-	-	-	(7,299)	(427)	(7,299)	(427)
Impairment		(25,622)	(22,714)	-	-	-	(17,347)	(25,622)	(40,061)
Amortisation	2.2	-	-	-	-	(7,262)	(7,565)	(7,262)	(7,565)
Closing carrying amount		57,456	83,078	23,523	23,523	34,389	28,145	115,368	134,746
Cost		94,380	117,094	23,523	23,523	126,689	133,178	244,592	273,795
Impairment and accumulated amortisation		(36,924)	(34,016)	-	-	(92,300)	(105,033)	(129,224)	(139,049)
Closing carrying amount		57,456	83,078	23,523	23,523	34,389	28,145	115,368	134,746
Less: Assets held for sale	17.0	-	-	-	-	(37)	(7,020)	(37)	(7,020)
Intangible assets		57,456	83,078	23,523	23,523	34,352	21,125	115,331	127,726

Goodwill
Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration paid above the fair value of the net identifiable assets, liabilities and contingent liabilities acquired.

Brand names
Brand names acquired in a business combination are recognised at fair value at the acquisition date. Brand names are considered to have indefinite useful lives as the Group have rights to use these names in perpetuity.

Impairment of goodwill and brand names
Assets that have an indefinite useful life are reviewed annually for impairment or whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

Computer software
All costs directly incurred in the purchase or development of computer software or subsequent upgrades and enhancements, which can be reliably measured and are not integral to a related asset, are capitalised as intangible assets. Computer software is amortised on a straight line basis over a period of between two to fifteen years. Costs incurred on computer software maintenance are expensed to the income statement as they are incurred.

Prior year Financial Services Group impairment
In the prior year the Group impaired the goodwill and partially impaired the computer software assets of the discontinued Financial Services Group in anticipation of the sale of the majority of this business segment in September 2017, to reduce the carrying amount to the expected net realisable value (refer note 15).

Significant judgements and estimates - impairment testing
Impairment of indefinite life intangible assets is assessed by comparing the recoverable amount of a cash generating unit with its carrying value. Assets are grouped at the lowest level for which there are separately identifiable cash flows (cash generating units) which also represent the lowest level within the Group at which these assets are monitored for internal management purposes. The allocation of the Group's significant carrying amounts of Goodwill and Brand names to cash generating units at balance date are set out in the table below.

The recoverable amount of a cash generating unit is calculated using the 'fair value less costs to sell' method. This discounted cashflow valuation method requires the use of estimates and projections regarding future business unit operating performance. The Group considers a wide range of factors including the Group's financial budgets, strategic plans, external benchmarks and historical performance to formulate future cashflow projections. The Group also engages external advisors to determine appropriate discount rates and long term growth rates, integral to the valuations. Cashflows beyond the 5 year projection period are extrapolated using the estimated growth rates stated below. These growth rates do not exceed the long term average growth rate for the sector in which the business unit operates.

Impairment testing

	NOEL LEEMING		TORPEDO7		WHOLESALE BUSINESS	
	2018	2017	2018	2017	2018	2017
	$000	$000	$000	$000	$000	$000
Goodwill	31,776	31,776	25,622	25,622	21,450	21,450
Brand names	15,500	15,500	8,023	8,023	-	-
Closing carrying amount	47,276	47,276	33,645	33,645	21,450	21,450
Key assumptions						
EBIT margin (%)	3.1	2.6	4.6	6.0	4.8	6.3
Terminal growth rate (%)	1.7	1.7	1.7	1.7	1.7	1.7
Post-tax discount rate (%)	10.9	10.9	11.7	11.7	9.1	12.6

Noel Leeming and Torpedo7 cash generating units refer to the business segments detailed in note 2.0. The Wholesale business forms part of The Warehouse segment. In previous years impairment testing for the Wholesale business was based on the business as a standalone cash generating unit. The cash flows for the Wholesale business have changed over recent years, such that the cash flows are now almost entirely based on internal transfer prices which are not independent from those of the wider The Warehouse segment. In the current year, impairment testing for the Wholesale business was changed and is now based on The Warehouse segment as the representative cash generating unit. Impairment testing for both the Noel Leeming and The Warehouse cash generating units did not indicate the carrying amounts of either goodwill or brand names to be impaired.

Torpedo7 impairment.
The current year results for Torpedo7 were below expectation, a combination of both difficult trading conditions and internal disruptions connected with relocating parts of the business operations. It is considered that it will now take longer for this business to achieve the desired scale necessary to achieve acceptable levels of profitability. The Group's transformation programme has identified a number of opportunities for this business, however the future growth expectations, even after factoring in the new transformation initiatives have been set back two years compared to previous forecasts. The revised forecasts for Torpedo7 indicate that the carrying value of the business is impaired and accordingly the Board has decided to write off all the goodwill attributed to the Torpedo7 business.

In our calculations, the recoverable amount of Torpedo7 was sensitive to the achievement of the transformation initiatives, and growing the business to an EBIT of approximately $10.5 million over the next five years and to a sufficient scale to support the recoverable amount. If the Torpedo7 transformation plan proves to be less successful than currently projected this may cause the Group to reassess the carrying value of the Torpedo7 brand and other assets.

10.0 BORROWINGS

10.1 Net debt	2018	2017
	$000	$000
Cash on hand and at bank	26,455	47,492
Bank borrowings at call - interest rate: 2.88% (2017: 2.96%)	43,715	49,159
Lease liabilities	125	434
Current borrowings	43,840	49,593
Bank borrowings - interest rate: 2.74% (2017: 2.48%)	20,000	35,000
Lease liabilities	51	169
Fixed rate senior bond (coupon: 5.30%)	125,000	125,000
Fair value adjustment relating to senior bond interest rate hedge	723	541
Unamortised capitalised costs on senior bond issuance	(820)	(1,257)
Non-current borrowings	144,954	159,453
Securitised borrowings (interest rate: 2.68%)	-	56,717
Total borrowings	188,794	265,763
Net debt	162,339	218,271

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the net proceeds and the redemption amount is recognised in the income statement over the period of the borrowings using the effective interest method. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance date.

Cash on hand and at bank

Cash on hand and at bank includes EFTPOS (electronic funds transfer point of sale) transactions which have not been cleared by the bank. The Group's balance date is always a Sunday which means the three previous day's store sales, which have been paid by EFTPOS, remain uncleared at balance date.

Securitised borrowings

The Group used a securitised borrowing facility to fund part of the Group's discontinued Financial Services operations. The facility permitted the Finance Services Group to borrow up to 80% of the value of qualifying securitised finance business receivables. The Group's securitised borrowing facility was included as part of the sale of the Financial Services businesses on 9 September 2017 (refer note 16).

Fixed rate senior bond

The Group issued a 5 year fixed rate senior bond on the New Zealand Stock Exchange in June 2015 with a 5.30% coupon. Interest on the bond is payable every six months (15 June and 15 December) and has a final maturity in June 2020. Based on the last quoted closing price of $1.03369 (2017: $1.04087) traded on the New Zealand Stock Exchange and a market yield of 3.79% (2017: 4.03%) the fair value of the Group's fixed rate senior bonds at balance date was $129.211 million (2017: $130.109 million). For accounting purposes (NZ IFRS 13) this is deemed a level 1 fair value measurement as it is derived from a quoted price, in an active market.

10.2 Net interest expense	NOTE	2018	2017
		$000	$000
Interest on bank overdrafts		33	266
Interest on deposits and use of money interest received		(1,494)	(150)
Interest on bank borrowings		3,935	9,330
Interest on finance leases		30	87
Interest on fixed rate senior bond		7,043	7,043
Net interest expense		9,547	16,576
Less interest attributable to discontinued operations	15.1	(382)	(4,049)
Net interest expense from continuing operations		9,165	12,527

10.3 Bank facilities	2018	2017
	$000	$000
Bank debt facilities	210,000	280,000
Bank facilities used	(63,715)	(84,159)
Unused bank debt facilities	146,285	195,841
Securitised debt facility	-	150,000
Securitised facility used	-	(56,717)
Unused securitised bank debt facility	-	93,283
Letters of credit facilities	28,000	32,389
Letters of credit	(5,516)	(13,153)
Unused letter of credit facilities	22,484	19,236
Total unused bank facilities	168,769	308,360

11.0 EQUITY

11.1 Capital management

Capital is defined by the Group to be the total equity as shown in the balance sheet. The Group's capital management objectives are to safeguard the Group's ability to continue as a going concern, to provide an appropriate rate of return to shareholders and to optimise the Group's cost of capital. The Group regularly reviews its capital structure and may make adjustments by means including changes to the Group's dividend pay-out ratio, issue of new shares, debt issuance, sale of assets or a combination of these.

The Group is financed through a mixture of bank borrowings and a fixed rate senior bond. The Group currently aims to maintain gearing levels, except for the Group's first quarter peak funding period, at levels of between 20% to 40%. Gearing is a measure of a company's financial leverage and shows the extent to which its operations are funded by lenders (debt) versus shareholders (equity). Prior to the sale of the Group's Financial Services businesses in September 2017 the Group viewed the funding of the balance sheet as having two distinct parts, with the discontinued Financial Services Group being separately financed from the Retail Group which allowed the Financial Services Group to have higher gearing levels.

The Group's longer term target is to continue to look at opportunities to reduce bank debt. The introduction of the new leasing standard (refer note 21), which is effective for the Group from the 2020 financial year will significantly increase book gearing as operating lease liabilities are included on the balance sheet. This new standard is non-cash in nature and for the purposes of testing debt covenant compliance with our external funding providers, these new lease liabilities and the associated interest expense are excluded from the covenant calculations.

The Group's dividend policy is based on distributing between 75% to 85% of the adjusted net profit of the Retail Group back to shareholders (refer note 7.0).

Externally imposed capital requirements
Retail Group borrowings are subject to a negative pledge contained in two separate trust deeds held for the benefit of the Group's banking institutions and bondholders. The trust deeds provide a guarantee that the parent and its guaranteeing Group companies will comply with certain quarterly debt ratios and restrictive covenants. The two principal covenants, which are the same for both trust deeds are:

DEBT COVENANT RATIOS AT BALANCE DATE	QUARTERLY COVENANT REQUIREMENT	2018	2017
Retail Group book gearing ratio (percentage)	will not exceed 60% in the first quarter ending October or exceed 50% in each of the remaining three quarters of the year	25.6	26.9
Retail Group book interest cover (times cover)	will not be less than 2 times operating profit	9.8	7.7

The Group was in compliance with the negative pledge covenants throughout the current and previous financial year.

11.2 Contributed equity	CONTRIBUTED EQUITY		ORDINARY SHARES	
	2018	2017	2018	2017
	$000	$000	000s	000s
Share capital	365,517	365,517	346,843	346,843
Treasury shares	(6,060)	(7,471)	(1,793)	(2,346)
Contributed equity	359,457	358,046	345,050	344,497

Ordinary shares are classified as equity. Incremental costs, directly attributable to the issue of new shares, are shown in equity as a deduction from the proceeds of the share issue.

Where the Group purchases its own equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs is deducted from equity attributable to the shareholders until the shares are cancelled or reissued. Where such shares are reissued, any consideration received, net of any directly attributable incremental transaction costs, is included in equity attributable to shareholders.

Treasury shares		TREASURY SHARES		ORDINARY SHARES	
	NOTE	2018	2017	2018	2017
		$000	$000	000s	000s
Opening balance		7,471	7,832	2,346	2,348
Ordinary shares issued to settle share rights plan obligations	14.0	(1,411)	(2,509)	(553)	(902)
Ordinary shares purchased (average purchase price $2.39)		-	2,148	-	900
Closing balance		6,060	7,471	1,793	2,346

Ordinary shares on issue are fully paid and carry one vote per share and participate equally in dividends, other distributions from equity and any surplus on a winding up of the Group. The Group retains its own ordinary shares which are used for employee share based payment arrangements. Voting rights attached to the shares are held by the trustees of the employee share plans, and dividends paid on the shares are retained by the trustee for the benefit of the Group.

11.3 Reserves	2018	2017
	$000	$000
Cash flow hedge reserve	11,292	(14,157)
De-designated derivative reserve	(581)	(1,017)
Hedge reserves	10,711	(15,174)
Foreign currency translation reserve	(5)	-
Share based payments reserve	766	2,138
Total reserves	11,472	(13,036)

Cash flow hedge reserve
This reserve records the portion of the gain or loss on a hedging derivative in a cash flow hedge that is determined to be an effective hedge. The cumulative deferred gain or loss on the hedge is recognised in the income statement when the hedged transaction impacts the income statement, or depending on the nature of the hedge, is included in a non-financial hedged item when the hedged event occurs. (Refer also to the consolidated statement of changes in equity and policy notes detailed in note 12.2).

De-designated derivative reserve
The de-designated derivative reserve is used to record the after tax mark to market losses realised from realigning the Group's interest rate hedge portfolio in prior years which resulted in a number of interest rate swaps being monetised. The cost to close the interest rate swaps is recognised in the income statement over the effective period of the original interest rate swaps. (Refer also to the consolidated statement of changes in equity and policy notes detailed in note 12.2).

Foreign currency translation
Exchange differences arising on translation of the Group's subsidiary in India are recognised in other comprehensive income and accumulated in a separate reserve within equity. The cumulative amount is reclassified to the income statement when the net investment is sold.

Share based payments reserve
Share rights are granted to employees in accordance with the Group's executive share rights plan. The fair value of share rights granted under the plan are measured at grant date and recognised as an employee expense over the vesting period with a corresponding increase in equity. The fair value at grant date of the share rights are independently determined using an appropriate valuation model that takes into account the terms and conditions upon which they were granted. (Note 14.0 provides further details regarding the plan and fair value calculations).

This reserve is used to record the accumulated value of the unvested shares rights, which have been recognised as an expense in the income statement. Upon the vesting of share rights, the balance of the reserve relating to the share rights is offset against the cost of treasury stock allotted to settle the obligation, with any difference in the cost of settling the commitment transferred to retained earnings. (Refer also to the consolidated statement of changes in equity).

11.4 Minority interest	2018	2017
	$000	$000
Opening balance	867	167
Minority interest capital contribution	-	750
Net profit attributable to minority interest	242	302
Dividends paid to minority shareholders	(230)	(352)
Closing balance	879	867

At balance date the Group's minority interest represents the 50% minority shareholding held in Waikato Valley Chocolates. During the prior year both the Group and the Waikato Valley Chocolates minority shareholders each invested an additional $0.750 million of share capital into the business.

12.0 FINANCIAL RISK MANAGEMENT

12.1 Financial risk factors

The Group's activities expose it to various financial risks including, liquidity risk, credit risk and market risk (including currency risk and interest rate risk). The Group's overall risk management programme focuses on the uncertainty of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

The Group enters into derivative transactions, principally interest rate swaps and forward currency contracts. The purpose is to manage the interest rate and currency fluctuation risks arising from the Group's operations and sources of finance.

Risk management is carried out by a central treasury department (Group Treasury) under policies approved by the Board of Directors. Group Treasury identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as mitigating foreign exchange, interest rate and credit risks, use of derivative financial instruments and investing excess cash.

12.2 Derivative financial instruments	CURRENCY CONTRACTS		INTEREST RATE SWAPS		TOTAL	
	2018	**2017**	**2018**	**2017**	**2018**	**2017**
	$000	$000	$000	$000	$000	$000
Current assets	19,030	-	-	-	19,030	-
Non-current assets	-	-	764	541	764	541
Current liabilities	-	(16,899)	-	(400)	-	(17,299)
Non-current liabilities	-	-	(3,394)	(2,507)	(3,394)	(2,507)
Total derivative financial instruments	19,030	(16,899)	(2,630)	(2,366)	16,400	(19,265)
Classified as:						
Cash flow hedges	19,030	(16,899)	(3,394)	(2,907)	15,636	(19,806)
Fair value hedges	-	-	764	541	764	541
Total derivative financial instruments	19,030	(16,899)	(2,630)	(2,366)	16,400	(19,265)

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. For the purposes of hedge accounting, hedges are classified as:

- Cash flow hedges when they hedge an exposure to a highly probable forecast transaction; or
- Fair value hedges when they hedge the exposure to changes in fair value of a recognised asset or liability.

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking the hedge transactions. An assessment, both at hedge inception and on an ongoing basis is also documented, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

Cashflow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity in the cash flow hedge reserve. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item will affect profit or loss (for instance when the forecast interest payment that is hedged takes place). However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory), the gains and losses previously deferred in equity are transferred from equity and included in the measurement of the initial cost or carrying amount of the asset or liability.

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributed to the hedged risk. The Group only applies fair value hedge accounting for hedging fixed interest on borrowings. The gain or loss relating to the effective portion of interest rate swaps hedging fixed rate borrowings and changes in the fair value of the fixed rate borrowings attributable to interest rate risk are recognised in the income statement within net interest expense.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of the hedged item, for which the effective interest method is used, is amortised over the period to maturity.

Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the income statement.

Significant judgements and estimates

The Group's derivatives are not traded in an active market which means quoted prices are not available to determine the fair value. To determine the fair value the Group uses valuation techniques which rely on observable market data. The fair value of forward exchange contracts are determined using the forward exchange market rates at the balance date and interest rate swaps are calculated as the present value of estimated future cash flows based on the applicable market interest yield rates at balance date. For accounting purposes (NZ IFRS 13) these valuations are deemed to be Level 2 fair value measurements as they are not derived from a quoted price in an active market but rather, a valuation technique that relies on other observable market data.

The Group uses an independent advisor to help determine the fair value of its derivatives.

12.3 Liquidity risk

Liquidity risk arises from financial liabilities of the Group and the Group's subsequent ability to meet the obligation to repay these financial liabilities as and when they arise.

The Group divided its funding requirements between funding for its retail operations and funding for the discontinued Financial Services business. The funding for the Financial Services business was provided by means of a debt securitisation programme (refer note 10.1). The debt securitisation facility was sold in September 2017 as part of the Financial Services Group business sale (note 16.0).

The Retail Group's liquidity position fluctuates throughout the year. The months leading up to the Christmas trading period typically put the greatest requirement for cash flows due to the build up of inventory, conversely the Retail Group's liquidity position is at its strongest immediately after the Christmas trading period. The Retail Group's gearing covenants increase from 50% to 60% for the first quarter of each financial year to allow for the effect of seasonal funding. To accommodate the increased funding requirements during the peak funding period the Group has committed three month seasonal credit facilities commencing in mid September of $50.000 million (2017: $50.000 million) which are in addition to the $210.000 million (2017: $280.000 million) of committed credit facilities (refer note 10.3). The Group has set treasury policy limits to ensure it maintains and operates within its available funding facilities.

LIQUIDITY POSITION AT BALANCE DATE	TREASURY POLICY REQUIREMENT	2018	2017
Retail Group unused debt facilities (refer note: 10.3)	committed credit facilities to be maintained at an amount of at least 115% of peak funding requirements projected for the next 2 years.	69.7%	69.9%
Retail Group funding tenor	at least 30% of the committed credit facilities have a maturity of greater than 3 years (includes retail bond)	30.0%	30.0%
Retail Group funding diversity (number of counterparties)	funding to be sourced from a minimum of four counterparties (includes retail bond)	6	6

The table below analyses the Group's financial liabilities and derivatives into relevant maturity bands, based on the remaining period from balance date to the contractual maturity date. The cash flow amounts disclosed in the table represent undiscounted cash flows liable for payment by the Group. The forward currency contracts "outflow" amounts disclosed in the table represent the gross amount payable by the Group for the purchase of foreign currency, whereas the "inflow" amounts represent the corresponding receipt of foreign currency arising from settlement of the contracts, converted using the spot rate at balance date.

Contractual maturity analysis	0 - 1 YEARS		1 - 3 YEARS		> 3 YEARS		TOTAL	
	2018	2017	2018	2017	2018	2017	2018	2017
	$000	$000	$000	$000	$000	$000	$000	$000
Trade and other payables	(282,601)	(271,443)	-	-	-	-	(282,601)	(271,443)
Bank borrowings	(63,715)	(84,159)	-	-	-	-	(63,715)	(84,159)
Securitised borrowings	-	(56,717)	-	-	-	-	-	(56,717)
Finance lease liabilities	(135)	(464)	(53)	(175)	-	(4)	(188)	(643)
Fixed rate senior bond	(5,808)	(5,790)	(131,625)	(138,250)	-	-	(137,433)	(144,040)
Financial liabilities	(352,259)	(418,573)	(131,678)	(138,425)	-	(4)	(483,937)	(557,002)
Forward currency contracts								
- outflow	(369,225)	(331,674)	-	-	-	-	(369,225)	(331,674)
- inflow	388,622	313,851	-	-	-	-	388,622	313,851
Interest rate swaps	(208)	(667)	(2,153)	(73)	(500)	(1,693)	(2,861)	(2,433)
Net derivatives	19,189	(18,490)	(2,153)	(73)	(500)	(1,693)	16,536	(20,256)

12.4 Credit risk

Credit risk arises from the financial assets of the Group which are exposed to potential counter-party default, with a maximum exposure equal to the carrying amount of these assets. In the normal course of business the Group incurs credit risk from finance business receivables, trade and other receivables, derivatives and transactions with financial institutions.

The Group places its cash and short-term investments and derivatives with high credit quality financial institutions approved by directors and in accordance with specified treasury policy limits. The Group's treasury policy requires bank counter-parties to have a minimum Standard & Poor's credit rating of at least A (2017: A).

The Group controls its credit risk from finance business receivables, trade and other receivables by the application of credit approval, limits and monitoring procedures. Receivable balances are monitored on an ongoing basis to ensure the Group's bad debt exposure is not significant. Concentrations of credit risk exist when changes in economic, industry or geographical factors similarly affect the group of counterparties whose aggregate credit exposure is significant in relation to the Group's total credit exposure. As the Group transacts with a diversity of counterparties it does not have any significant exposure to any individual customers, industry or economic sector.

12.5 Market risk

Foreign exchange risk

The Group purchases inventory directly from overseas suppliers, primarily priced in US dollars. In order to protect against exchange rate movements and to manage the inventory costing process, the Group enters into forward exchange contracts to purchase foreign currencies. These contracts hedge highly probable forecast purchases and are timed to mature when the payments are scheduled to be settled. Management work to a board approved treasury policy to manage this foreign exchange risk. The policy parameters for hedging forecast currency exposures are:

- to hedge 40% to 100% of forecast US dollar commitments expected in the next 0 to 6 months
- to hedge 0% to 85% of forecast US dollar commitments expected in the next 7 to 12 months
- where exposures to other currencies arise, the Group hedges these risks once a firm commitment is in place
- where foreign currency hedging extends beyond a 12 month time horizon, this requires specific approval

Currency position at balance date	CARRYING VALUE		NOTIONAL AMOUNT (NZD)		AVERAGE EXCHANGE RATE		0 TO 12 MONTH HEDGE LEVEL	
	2018	2017	2018	2017	2018	2017	2018	2017
	$000	$000	$000	$000	CENTS	CENTS	PERCENTAGE	PERCENTAGE
Forward exchange contracts								
Buy US dollars/Sell New Zealand dollars	19,030	(16,899)	369,225	331,674	0.7153	0.7115	65.4	72.1

The Group did not hold any foreign exchange derivatives with a maturity exceeding 1 year at either the current or last year's balance date. The spot rate used to determine the mark-to-market carrying value of the US dollar forward contracts at balance date was $0.6795 (2017: $0.7520).

The following sensitivity table, based on foreign currency contracts in existence at balance date, shows the positive/(negative) effect of reasonably possible exchange rate movements on after tax profit and equity, with all other variables held constant.

Currency position at balance date	NET PROFIT AFTER TAX		EQUITY	
	2018	2017	2018	2017
	$000	$000	$000	$000
10% appreciation in the New Zealand dollar	-	-	(25,196)	(20,424)
10% depreciation in the New Zealand dollar	-	-	30,796	24,965

There is no profit and loss sensitivity, as the forward currency contracts have been designated as cash flow hedges and based on historical performance it has been assumed they will be 100% hedge effective.

Interest rate risk

The Group's exposure to market interest rates primarily relates to the Retail Group's core borrowings estimated to be $200 million (2017: $200 million) for treasury management purposes. The Group's treasury policy is to manage its finance costs using a mix of fixed and floating rate debt. The Group's treasury policy is to maintain between 50% to 90% of core borrowings at fixed rates. At balance date 65% (2017: 80%) of the Group's core borrowings were at fixed interest rates. The Group uses fixed rate debt and interest rate swaps to manage the fixed interest rate pricing and profile.

The following sensitivity table, based on interest rate risk exposures in existence at balance date shows the effect of reasonably possible interest rate movements on after tax profit and equity, with all other variables held constant.

Interest rate sensitivity table			+ 100 BASIS POINTS		- 100 BASIS POINTS	
	NOTE	AMOUNT	PROFIT	EQUITY	PROFIT	EQUITY
		$000	$000	$000	$000	$000
At 29 July 2018						
Finance business receivables	17.0	7,381	53	53	(53)	(53)
Net bank borrowings	10.1	(37,260)	(268)	(268)	268	268
Fixed rate senior bond	10.1	(124,903)	358	358	(432)	(432)
Derivative financial instruments						
Interest rate swaps - cash flow hedges	12.2	(3,394)	108	1,945	(108)	(2,066)
Interest rate swaps - fair value hedges	12.2	764	(358)	(358)	432	432
Total increase/(decrease)		(157,412)	(107)	1,730	107	(1,851)
At 30 July 2017						
Finance business receivable	17.0	67,355	485	485	(485)	(485)
Securitised borrowings	10.1	(56,717)	(408)	(408)	408	408
Net bank borrowings	10.1	(36,667)	(264)	(264)	264	264
Fixed rate senior bond	10.1	(124,284)	295	295	(308)	(308)
Derivative financial instruments						
Interest rate swaps - cash flow hedges	12.2	(2,907)	252	1,472	(252)	(1,558)
Interest rate swaps - fair value hedges	12.2	541	(295)	(295)	308	308
Total increase/(decrease)		(152,679)	65	1,285	(65)	(1,371)

Notes to the Financial Statements - Other Disclosures

For the 52 week period ended 29 July 2018

13.0 KEY MANAGEMENT

Key management includes the Directors of the Company and those employees deemed to have disclosure obligations under subpart 6 of the Financial Markets Conduct Act 2013, being the Group Chief Executive Officer and his 9 (2017: 9) direct reports. Compensation made to Directors and other members of key management of the Group is set out in the two tables below:

Directors Fees	**2018**	**2017**
	$000	$000
J Withers (Chair - appointed September 2016)	166	128
K R Smith (Deputy Chair)	115	115
E K van Arkel (retired September 2016)	-	42
A J Balfour	85	85
J W M Journee	86	86
J H Ogden (retired November 2017)	39	94
J M Raue (appointed September 2016)	86	72
V C M Stoddart (retired November 2017)	38	91
Sir Stephen Tindall	85	85
Total	700	798

In addition to the directors fees stated above K R Smith and J H Ogden both received $8,000 (2017: $43,000) each in their capacity as directors of the Group's discontinued Financial Services business.

Key management	**2018**	**2017**
	$000	$000
Base salary	6,101	6,934
Annual performance based compensation	2,944	1,470
Accrued three year performance based cash settled compensation	1,389	703
Equity settled share-based compensation (refer note: 14.0)	140	987
Termination benefits	666	981
Total	11,240	11,075

14.0 EXECUTIVE LONG TERM INCENTIVE PLAN (LTIP)

Share rights were granted to key management and other senior executives as part of a legacy share based incentive plan. There have been no share rights granted under this plan since October 2015 and the plan was replaced by a cash based incentive plan in November 2016 (which is not linked to the share price). At balance date this legacy share based plan had 32 (2017: 53) participants. The final two tranches of the plan will both settle in October 2018. The plan was divided into medium term (Award shares) and long term (Performance shares) share plans.

Award shares

Award shares provide participants with a conditional right to be allocated and transferred ordinary shares upon the satisfaction of certain company performance targets and individual performance targets, measured during the initial vesting period. The number of ordinary shares which are allocated is determined by reference to the percentage achievement of these targets, with one third of the allocated shares being transferred to each participant at the end of the initial vesting period and a further third at the end of each of the next two vesting dates.

Performance shares

Performance shares provide participants with a conditional right to be transferred ordinary shares at the end of the vesting period if the Group has achieved a specified total shareholder return on the vesting date. The target total shareholder return represents the increase in Group's share price over the period between the grant date and the vesting date, inflated from the grant date using the Group's cost of equity.

Share rights		PERFORMANCE SHARES		AWARD SHARES		TOTAL SHARE RIGHTS	
	NOTE	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
		000	000	000	000	000	000
Outstanding at the beginning of the year		954	1,695	841	2,269	1,795	3,964
Vested during the year	11.2	-	-	(553)	(902)	(553)	(902)
Forfeited during the year		(562)	(741)	(52)	(526)	(614)	(1,267)
Outstanding at the end of the year		392	954	236	841	628	1,795
Expected vesting dates							
October 2017		-	408	-	502	-	910
October 2018		392	546	236	339	628	885
Outstanding at the end of the year		392	954	236	841	628	1,795

Fair values

The fair value of performance shares at grant date have been estimated using a variant of the Binomial Options Pricing Model. The fair value of award shares has been calculated as the present value of the rights at grant date discounted using the Group's estimated cost of equity and allowing for expected future dividends. The following table lists the fair value of the share rights and key inputs used in the pricing models to determine the values:

Performance shares	
Date granted	October 2015
Vesting date	October 2018
Target total shareholder return ($)	0.78
Risk free interest rate (%)	2.64
Average expected volatility (%)	21.50
Average share price at measurement date ($)	2.58
Estimated fair value at grant date ($)	0.81

Award shares	
Date granted	October 2015
Final vesting date	October 2018
Weighted average cost of equity capital (%)	8.72
Average share price at measurement date ($)	2.58
Average estimated fair values at grant date ($)	2.30

15.0 DISCONTINUED OPERATIONS

A discontinued operation is a component of the Group that represents a separate major line of business that is part of a disposal plan. The results of discontinued operations are presented separately as a single amount in the income statement.

In July 2017 the Group developed plans for the sale of the Group's Financial Services businesses and executed the first part of this plan when it sold most of its Financial Services business in September 2017 to Finance Now, a subsidiary of SBS Bank (refer note 16). The last part of this plan involves selling the remaining Diners Club (NZ) business (refer note 17). As a result of these actions, the Financial Services Group has been reported as a discontinued operation.

The full year results and cash flows from the Financial Services Group are as follows.

15.1 Financial Services Group results and cash flows	NOTE	2018	2017
		$000	$000
Finance business revenue		4,729	20,392
Expenses		(8,188)	(28,893)
Business acquisition, disposal and restructuring costs		(1,421)	(1,283)
Impairment of assets	9.2	-	(40,061)
Loss before interest and tax		(4,880)	(49,845)
Interest expense	10.2	(382)	(4,049)
Loss before tax		(5,262)	(53,894)
Income tax expense	4.1	876	3,611
Loss from discontinued operations		(4,386)	(50,283)
Cash flows from discontinued operations			
Net cash flows from operating activities		5,069	(169)
Net cash flows from investing activities		16,957	(3,208)
Net cash flows from financing activities		(28,753)	(2,660)

16.0 BUSINESS DISPOSAL - FINANCIAL SERVICES GROUP

	2018
	$000
Cash and cash equivalents of the subsidiaries sold	(2,831)
Sale proceeds settled in cash	20,122
Consideration	17,291
Finance business receivables	56,669
Property, plant and equipment	1,011
Computer software	7,090
Securitised borrowings related to the sold subsidiaries	(45,162)
Other working capital	(2,317)
Carrying value of net assets sold	17,291
Claw back provision	1,421
Loss on business disposal	(1,421)

Contingent and 'claw back' liabilities

When the Group sold the Financial Services businesses in September 2017 to Finance Now (a subsidiary of SBS Bank) it exposed the Group to a few actual and contingent liabilities connected with a claw back provision and warranties contained in the sale and purchase agreement.

The Group was required to pay a purchase price adjustment to the extent that the finance receivables impairment provisions which were sold were less than the actual write-offs experienced during the 9 month period following the sale (termed claw back). The Group settled the claw back obligation ($1.421 million) after balance date.

The Group was also required to make warranties, which are typical for a transaction of this nature. These warranties are largely covered by an insurance contract, however there are some items which are not covered, such as tax claims. These warranty claims are capped at $18.0 million (representing the purchase consideration) and expire after 18 months and are treated as contingent liabilities.

17.0 HELD FOR SALE

Non-current assets or a group of assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than continuing use and a sale is considered highly probable. They are measured at the lower of their carrying amount and fair value less costs to sell, except for deferred tax assets, assets arising from employee benefits and financial assets which are specifically exempt from this requirement.

An impairment loss is recognised for any initial or subsequent write down of the asset to fair value less costs to sell. A gain is recognised for any subsequent increase in fair value less cost to sell of an asset, but not more than any cumulative impairment loss previously recognised. Non-current assets are not depreciated or amortised while they are classified as held for sale.

The Group committed to a plan in July 2017 to sell its Financial Services credit card business and executed the first part of this plan when it sold most of these businesses in September 2017. A tactical decision was then made to separate the remaining Diners Club (NZ) business into two distinct parts, being the merchant acquisition business and the card issuance business to increase buyer interest. The card issuance business is part of a franchise arrangement which is due to expire in December 2018 and while the Group is actively seeking buyers for both businesses, if a buyer cannot be found for the card issuance business this business will be wound up when the franchise agreement expires.

Financial Services Group assets classified as held for sale	NOTE	2018	2017
		$000	$000
Finance business receivables		7,381	67,355
Property, plant and equipment	9.1	12	1,044
Computer software	9.2	37	7,020
Other assets		130	1,723
Total assets classified as held for sale		7,560	77,142
Other liabilities directly associated with assets held for sale		(3,886)	(5,443)

18.0 COMMITMENTS

Operating leases

The Group's non-cancellable operating leases mainly relate to building occupancy leases and typically expire within ten years. The leases have varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are renegotiated. Commitments for minimum lease payments in relation to non-cancellable operating leases at balance date are as follows:

Future minimum rentals payable	2018	2017
	$000	$000
0–1 Years	121,473	120,363
1–2 Years	107,531	105,533
2–5 Years	249,550	242,456
5+ Years	234,207	270,975
Operating leases	712,761	739,327

Capital expenditure contracted for at balance date, but not recognised as liabilities, is set out below:

Capital commitments	2018	2017
	$000	$000
Within one year	2,783	7,339

19.0 CONTINGENT LIABILITIES

	2018	2017
	$000	$000
Bank letters of credit issued to secure future purchasing requirements	5,516	8,764
Less included as a goods in transit creditor	(575)	(586)
	4,941	8,178
Standby letter of credit issued to Visa Worldwide	-	4,389
Bank guarantees provided to landlords and the New Zealand Stock Exchange Limited	643	643
Total contingent liabilities	5,584	13,210

Contingent liabilities connected to the sale of the Group's Financial Services businesses in September 2017 are detailed in note 16.

20.0 RELATED PARTIES

During the period the Group has not entered into any material contracts involving related parties or Directors' interests which are not disclosed. No amounts owed by related parties have been written off or forgiven during the period.

Shareholdings

At balance date directors and other key executives held ordinary shares in the Group and received fully imputed dividends during the year as set out below.

(i) Sir Stephen Tindall (Director) has a beneficial shareholding of 93,687,096 shares (2017: 93,687,096 shares) which carry the normal entitlement to dividends. Dividends of $14.990 million (2017: $14.053 million) were received on these shares during the year.

(ii) The Group's other Directors collectively had beneficial shareholdings of 198,964 shares (2017: 215,052 shares) at balance date which carry the normal entitlement to dividends.

(iii) Share transactions undertaken by the Directors during the year and Directors non-beneficial shareholdings are required to be disclosed in respect of section 148(2) of the Companies Act 1993. Details of these transactions can be found as part of the statutory disclosures in this annual report.

(iv) Key management (as detailed in note 13.0) collectively held 263,166 shares (2017: 524,069 shares) at balance date which carry the normal entitlement to dividends.

21.0 NEW ACCOUNTING STANDARDS WHICH ARE RELEVANT TO THE GROUP BUT ARE NOT YET EFFECTIVE

NZ IFRS 9: Financial Instruments

NZ IFRS 9 "Financial Instruments" replaces the current Financial Instruments standard (NZ IAS 39) with effect for the Group from 30 July 2018. The new standard addresses the classification, measurement and recognition of financial assets and liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. The two areas which could potentially impact the Group concern hedge accounting and impairment provisions for trade receivables.

Hedge accounting - the Group's current hedge relationships can qualify as continuing hedges upon the adoption of NZ IFRS 9. Accordingly, the Group does not expect any significant profit impact from implementing the new accounting treatment for its hedge relationships. The nature and extent of the Group's disclosures in next year's financial statements in relation to its hedge relationships will however need to be amended to accommodate the requirements of the new reporting standard.

Trade receivables impairment provisions – the new standard changes how the impairment of Financial Assets (classified at amortised cost) are calculated from an 'incurred credit loss' model as stipulated under NZ IAS 39 to an 'expected credit loss' model. Based on the Group's assessment of historical provision rates and forward-looking analysis, there is not expected to be a material impact on the impairment provisions in the year of adoption.

The Group's assessment has not identified any other material changes from the adoption of NZ IFRS 9.

NZ IFRS 15: Revenue from contracts with customers

NZ IFRS 15, 'Revenue from contracts with customers' replaces the current revenue recognition guidance in NZ IAS 18 'Revenue' and NZ IAS 11 'Construction Contracts' and related interpretations. The new standard is based on the principle that revenue is recognised when control of a good and service transfers to a customer. The standard is effective for the Group from 30 July 2018.

The Group has assessed the potential impact of NZ IFRS 15. The work involved segregating the different revenue streams within the Group and analysing any impact arising from the new accounting standard. The majority of revenue is made up of in store transactions where performance obligations are generally satisfied at the point of sale, with less than 10% earned through online sales. The following matters were identified as potentially impacting the Group.

Accounting for online sales - the Group's online transactions provide customers with the option for direct delivery or collection of goods from the store. Under NZ IFRS 15, an assessment must be made in these arrangements whether control has transferred to the customer, even though the customer does not have physical possession of the goods. Another consideration for online sales is whether arranging the delivery of goods is a separate performance obligation that impacts the timing, measurement and classification of revenue recognised. The Group has assessed the implications of these matters and concluded that there is no material impact to revenue recognition upon adoption of NZ IFRS 15.

Accounting for sales returns - NZ IAS 18 does not specify how the sales return provision is classified on the balance sheet. Under NZ IFRS 15, the Group will be required to change the way it classifies the estimated value of goods expected to be returned and record these as a separate asset rather a reduction in the sales return liability.

The Group's assessment has not identified any other material changes from the adoption of NZ IFRS 15.

NZ IFRS 16: Leases

NZ IFRS 16, 'Leases', replaces the current guidance in NZ IAS 17 and will be adopted by the Group from 28 July 2019. The current accounting model for leases requires a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). NZ IFRS 16 will require a lessee to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. The income statement will also be impacted by the recognition of interest and depreciation expenses and the removal of the current rental expense.

The Group has been evaluating and planning for the adoption and implementation of NZ IFRS 16 including selecting a new lease accounting system, evaluating practical expedient and accounting policy elections, and assessing the overall financial statement impact. While the impact of NZ IFRS 16 is non-cash in nature and will not affect the Group's cash flows it will have a material impact on the Group's financial position.

The Group currently intends to use a simplified transition approach on adoption of NZ IFRS 16, this expedient however does not permit the Group to restate comparative amounts for the periods prior to adoption. Management has estimated the impact of NZ IFRS 16 using the 'modified retrospective approach' at the date of adoption based on the Group's current operating leases. The model required management to make some key judgements including:

- the incremental borrowing rate used to discount lease assets and liabilities; and
- the lease term including potential rights of renewals.

On adoption the Group will recognise the following line items:

- Recognition of a right of use asset of approximately $710 million;
- Recognition of a deferred taxation asset of approximately $45 million;
- Recognition of a lease liability of approximately $871 million; and
- Decrease in opening retained earnings of approximately $116 million.

The impact on the consolidated income statement for the period ended 2 August 2020 is expected to decrease occupancy expenses, increase amortisation expenses and increase in interest expenses. The impact on each of these line items is expected to be significant however currently management do not expect the overall effect on net profit attributable to shareholders to be material. Managements current estimates will change prior to adoption as conditions change, due to:

Managements current estimates will change prior to adoption as conditions change, due to:

- Finalisation of management's judgements and subsequent movements in borrowing rates;
- New lease contracts entered into by the Group;
- Changes to existing lease contracts; and
- Change in management's judgement regarding exercising rights of renewals under lease arrangements.
- Clarification of tax rules impacting the recognition of deferred tax assets

Independent Auditor's Report

To the shareholders of The Warehouse Group Limited

The financial statements comprise:

- the consolidated balance sheet as at 29 July 2018;
- the consolidated income statement for the 52 week period then ended;
- the consolidated statement of comprehensive income for the 52 week period then ended;
- the consolidated statement of changes in equity for the 52 week period then ended;
- the consolidated statement of cash flows for the 52 week period then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

OUR OPINION

In our opinion, the financial statements of The Warehouse Group Limited (the Company), including its subsidiaries (the Group), present fairly, in all material respects, the financial position of the Group as at 29 July 2018, its financial performance and its cash flows for the 52 week period then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs NZ) and International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

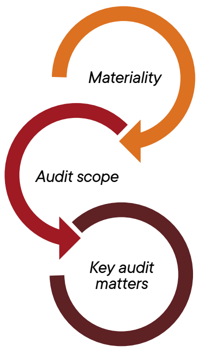
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the Group in accordance with Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* (PES 1) issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our firm carries out other services for the Group in the areas of treasury policy advice, other assurance services and ASM scrutineering. The provision of these other services has not impaired our independence as auditor of the Group.

OUR AUDIT APPROACH

Overview



An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement.

Overall Group materiality: $4.1 million, which represents approximately 5% of profit before tax from continuing operations, adjusted for the gain on property disposals, goodwill impairment and restructuring costs.

We chose this as the benchmark because, in our view, it is a proxy for adjusted profit and is the benchmark against which the performance of the Group is most commonly measured by users.

We have determined that there are two key audit matters:

- Impairment of intangible assets
- Valuation of inventory

Materiality

The scope of our audit was influenced by our application of materiality.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out above. These, together with qualitative considerations, helped us to determine the scope of our audit, the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Audit scope

We designed our audit by assessing the risks of material misstatement in the financial statements and our application of materiality. As in all of our audits, we also addressed the risk of management override of internal controls including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the sector in which the Group operates.

We conducted full scope audit work on two entities within the Group which make up 86% of external revenue and 93% of profit before tax from continuing operations, adjusted for the gain on property disposals, goodwill impairment and restructuring costs. The remaining entities in the Group were not considered individually significant and depending on our risk assessment were subject to other audit procedures such as testing of key balances or reconciliations, supplemented by analytical review.

Independent Auditor's Report

To the shareholders of The Warehouse Group Limited

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current 52 week period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

KEY AUDIT MATTER	HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER
Impairment of intangible assets	
At balance date, the carrying value of the Group's intangible assets was $115.3 million. Of this amount, $81.0 million (2017: $106.6 million) related to goodwill and brands, which are tested for impairment at least annually. To assess the carrying value of goodwill and brands, management used discounted cash flow models based on the fair value less cost to dispose methodology for each cash generating unit (CGU) and compared the valuations to the underlying carrying amount of the CGUs, including goodwill and brands. The assessment of impairment of the intangible assets was an area of audit focus due to the magnitude of the balances and the judgements applied by management in the assessment of impairment. The key assumptions adopted by management in their impairment assessment are described in Note 9.2. The assessment performed resulted in the conclusion that goodwill of $25.6 million relating to the Torpedo7 CGU was fully impaired.	To respond to the risk of impairment of goodwill and brands, our audit procedures included the following: • Engaged our valuation expert to assist in our assessment of the reasonableness of certain assumptions used by management. In particular, we obtained an understanding of the terminal growth rates used by management and challenged the reasonableness of those rates by comparing them to comparable industry rates. We also compared the discount rate applied by management to the average cost of capital of the Group. • Reviewed management's sensitivity analysis over the key assumptions and also considered alternative possible scenarios and their potential impact. • Assessed the reliability of management's forecasts by performing a lookback analysis of historical forecasts against actual results. • For the Torpedo7 CGU, we understood the key changes between the performance for the 52 week period to 29 July 2018 to the forecast used in the impairment calculation. We considered these based on past performance and subsequent changes that have been made within the business. • For Torpedo7, we also considered whether assets other than goodwill were impaired. • Tested the mathematical accuracy of the underlying model. • Assessed the adequacy of disclosures in the financial statements. We have no matters to report.
Valuation of inventory	
The Group had finished goods of $494.0 million as at 29 July 2018 (2017: $457.4 million). The inventory provision associated with finished goods of $29.0 million (2017: $22.5 million) was determined based on a combination of an automated system calculation as well as management's assessment of discontinued, aged and clearance items. This was an area of focus due to the significance of the inventory balance and the judgements involved in determining the appropriate level of provisioning, including management's expectations for future sales and estimation of inventory write-downs. Note 8.1 of the financial statements describes the judgements and estimates applied by management in determining the inventory provision.	Our audit procedures over the Group's inventory provisioning methodology included the following: • Observed management's stocktake process at selected locations and checked that obsolete inventory items were identified and accounted for. • Held discussions with management to understand and corroborate assumptions used to estimate inventory provisions. • On a sample basis, tested the net realisable value of finished goods by comparing the supplier invoice against the most recent retail price less cost to sell. • On a sample basis, reperformed the obsolescence and net realisable value system-generated calculations and tested inputs to detailed inventory listings. • Reviewed the inventory aging schedules to check, on a sample basis, whether provisions were recorded for aged stock in accordance with Group policy. • Obtained an understanding of specific inventory provisions calculated for certain inventory categories and checked that these additional provisions were appropriate based on review of aged stock and net realisable value. • On a sample basis, tested the accounting treatment of supplier rebates relating to inventory by comparing the rebate recorded versus the supplier agreement. • Compared all inventory provisions for each finished goods category as a percentage of the gross amount versus the prior year and understood the rationale for any changes. From the procedures performed, we have no matters to report.

Independent Auditor's Report

To the shareholders of The Warehouse Group Limited

INFORMATION OTHER THAN THE FINANCIAL STATEMENTS AND AUDITOR'S REPORT

The Directors are responsible for the annual report. Our opinion on the financial statements does not cover the other information included in the annual report and we do not, express any form of assurance conclusion on the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE FINANCIAL STATEMENTS

The Directors are responsible, on behalf of the Company, for the preparation and fair presentation of the financial statements in accordance with NZ IFRS and IFRS, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs NZ and ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs (NZ), the auditor exercises professional judgement and maintains professional scepticism throughout the audit. The auditor also:

- Identifies and assesses the risks of material misstatement of the financial statements, whether due to fraud or error, designs and performs audit procedures responsive to those risks, and obtains audit evidence that is sufficient and appropriate to provide a basis for the auditor's opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtains an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluates the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Concludes on the appropriateness of the use of the going concern basis of accounting by those charged with governance and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If the auditor concludes that a material uncertainty exists, the auditor is required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. The auditor's conclusions are based on the audit evidence obtained up to the date of the auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluates the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtains sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements. The auditor is responsible for the direction, supervision and performance of the group audit. The auditor remains solely responsible for the audit opinion.

WHO WE REPORT TO

This report is made solely to the Company's shareholders, as a body. Our audit work has been undertaken so that we might state those matters which we are required to state to them in an auditor's 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 Company and the Company's shareholders, as a body, for our audit work, for this report or for the opinions we have formed.

The engagement partner on the audit resulting in this independent auditor's report is Leopino Foliaki.

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants, Auckland

20 September 2018

Annual 5 Year Summary

	(52 WEEKS) 2018	(52 WEEKS) 2017	(52 WEEKS) 2016	(52 WEEKS) 2015	(52 WEEKS) 2014
	$000	$000	$000	$000	$000
SUMMARY INCOME STATEMENTS					
The Warehouse	1,716,596	1,761,399	1,760,708	1,718,307	1,665,233
Warehouse Stationery	263,766	278,181	279,155	262,780	250,561
Noel Leeming	880,453	810,705	752,137	665,628	620,520
Torpedo7	163,402	157,726	148,660	131,231	107,658
Other group operations	9,655	8,603	9,166	9,276	14,217
Inter-segment eliminations	(39,301)	(35,843)	(29,179)	(16,801)	(9,711)
Retail sales	2,994,571	2,980,771	2,920,647	2,770,421	2,648,478
The Warehouse	71,440	84,531	89,376	79,600	76,903
Warehouse Stationery	10,590	15,743	14,288	12,723	11,793
Noel Leeming	31,163	19,264	12,050	6,424	11,308
Torpedo7	(1,447)	2,675	3,380	34	1,085
Digital Retail venture	(1,133)	-	-	-	-
Other group operations	(19,171)	(14,376)	(7,929)	(5,555)	(4,373)
Retail operating profit	91,442	107,837	111,165	93,226	96,716
Equity earnings of associate	-	-	723	2,802	3,006
Gain on business disposals	218	11,455	5,533	5,533	16,810
Gain/(losses) from business aquisition	-	-	10,625	(977)	4,308
Restructuring costs	(8,731)	(12,060)	-	-	-
Intangible asset impairment	(25,622)	-	-	(12,491)	-
Earnings before interest and tax	57,307	107,232	128,046	88,093	120,840
Net interest expense	(9,165)	(12,527)	(14,154)	(15,123)	(13,427)
Profit before tax	48,142	94,705	113,892	72,970	107,413
Income tax expense	(20,636)	(23,691)	(25,890)	(21,148)	(27,378)
Profit after tax	27,506	71,014	88,002	51,822	80,035
Discontinued operations (net of tax)	(4,386)	(50,283)	(5,526)	(2,074)	(2,781)
Minority interests	(242)	(302)	(4,138)	1,562	496
Profit attributable to shareholders	22,878	20,429	78,338	51,310	77,750
ADJUSTED PROFIT RECONCILIATION					
Unusual items (detailed above)	34,135	605	(16,158)	7,935	(21,118)
Income tax relating to unusual items	(2,384)	(3,132)	(2,163)	(941)	2,751
Minority interests	-	-	3,614	(1,170)	-
Discontinued operations (net of tax)	4,386	50,283	5,526	2,074	2,781
Adjusted net profit	59,015	68,185	69,157	59,208	62,164
THE WAREHOUSE					
Operating margin (%)	4.2	4.8	5.1	4.6	4.6
Same store sales growth (%)	(3.0)	1.2	4.1	1.4	3.2
Number of stores	93	92	92	92	91
Store footprint (square metres)	505,645	501,807	499,547	497,702	494,847
WAREHOUSE STATIONERY					
Operating margin (%)	4.0	5.7	5.1	4.8	4.7
Same store sales growth (%)	(6.0)	(0.3)	6.5	1.4	5.3
Number of stores	70	69	66	65	63
Store footprint (square metres)	71,491	73,216	71,927	70,445	68,194
NOEL LEEMING					
Operating margin (%)	3.5	2.4	1.6	1.0	1.8
Same store sales growth (%)	5.7	6.4	14.2	1.0	5.6
Number of stores	74	77	75	78	77
Store footprint (square metres)	76,055	73,591	71,169	70,999	69,391
DIVIDEND DISTRIBUTIONS					
Interim (cents per share)	10.0	10.0	11.0	11.0	13.0
Final (cents per share)	6.0	6.0	5.0	5.0	6.0
Ordinary dividends declared (cents per share)	16.0	16.0	16.0	16.0	19.0
Basic earnings per share (cents)	6.6	5.9	22.7	15.2	24.1
Basic adjusted earnings per share (cents)	17.1	19.8	20.1	17.2	19.3

	2018	2017	2016	2015	2014
	$000	$000	$000	$000	$000
SUMMARY BALANCE SHEETS					
Inventories	523,840	487,274	501,713	510,461	492,109
Trade and other receivables	79,758	75,632	150,624	86,361	91,253
Creditors and provisions	(367,002)	(336,451)	(347,073)	(315,565)	(328,706)
Working capital	236,596	226,455	305,264	281,257	254,656
Fixed assets	272,944	273,300	312,396	386,709	353,376
Held for sale	3,674	71,699	52,277	-	-
Investments		-	-	2,778	5,541
Funds employed	513,214	571,454	669,937	670,744	613,573
Taxation (liabilities) / assets	32,030	45,870	40,943	18,599	27,485
Contingent and deferred consideration	-	-	(1,000)	(3,250)	(22,316)
Goodwill and Brand Names	80,979	106,601	129,315	120,092	132,583
Derivative financial instruments	16,400	(19,265)	(28,619)	35,358	(7,653)
Capital employed	642,623	704,660	810,576	841,543	743,672
Net debt	162,339	218,271	299,980	299,573	220,878
Equity attributable to shareholders	479,405	485,522	510,429	540,060	518,926
Minority interest	879	867	167	1,910	3,868
Sources of funds	642,623	704,660	810,576	841,543	743,672
SUMMARY CASH FLOW					
Continuing Operating profit	91,442	107,837	111,165	93,226	96,716
Continuing Depreciation and amortisation	59,630	58,376	58,210	57,770	51,025
Continuing Operating EBITDA	151,072	166,213	169,375	150,996	147,741
Change in trade working capital	(5,853)	21,661	35,198	(35,343)	(22,742)
Income tax paid	(14,082)	(27,454)	(28,037)	(22,398)	(37,492)
Net interest paid	(9,307)	(16,008)	(16,495)	(18,662)	(13,351)
Share based payment expense	353	1,283	3,208	2,114	2,266
Supplier contributions	(2,694)	-	-	-	-
Restructuring costs	(8,731)	(12,397)	-	-	-
Discontinued EBITDA	(3,459)	(6,686)	(1,930)	(929)	(2,095)
Loss on sale of plant and equipment	615	1,476	1,141	691	2,282
Operating cash flow	107,914	128,088	162,460	76,469	76,609
Capital expenditure	(70,229)	(70,575)	(75,180)	(109,345)	(83,898)
Proceeds from divestments	74,680	79,714	45,870	31,120	27,544
Proceeds from equity raise	-	-	-	-	114,072
Dividend from associate	-	-	2,695	5,565	3,136
Net dividends paid	(55,785)	(52,466)	(58,162)	(59,640)	(58,193)
Employee share schemes	-	(2,148)	(2,528)	(2,455)	(2,818)
Acquisition of subsidiaries and minorities	-	(1,000)	(74,367)	(20,043)	(80,181)
Other items	(648)	96	(1,195)	(366)	(275)
Net cash flow	55,932	81,709	(407)	(78,695)	(4,004)
Opening debt	(218,271)	(299,980)	(299,573)	(220,878)	(216,874)
Closing debt	(162,339)	(218,271)	(299,980)	(299,573)	(220,878)
FINANCIAL RATIOS					
Operating margin (%)	3.1	3.6	3.8	3.4	3.7
Interest cover (times)	10.0	8.6	7.9	6.3	7.4
Fixed charge cover (times)	2.0	2.0	2.1	2.1	2.2
Net debt / EBITDA (times)	1.1	1.4	1.8	2.0	1.5
Net debt / net debt plus equity (%)	25.1	31.0	37.0	35.6	29.7
Return on funds employed (%)	16.9	17.4	16.7	15.0	17.3
Capex / depreciation (times)	1.2	1.1	1.2	2.0	1.8

Governance report

At The Warehouse Group Limited (the Company) we are committed to high standards of corporate governance and believe it is a critical component in creating sustainable long-term value for our shareholders, building strong relationships with team members, improving the experience we offer our customers and contributes to our place within the wider community.

This statement gives an overview of the policies and processes that are in place throughout the Company that ensure best-practice standards of corporate governance are followed.

We support the NZX Corporate Governance Code 2017 (the NZX Code), which replaced the Best Practice Code from October 2017. This statement follows the structure of the new Code and addresses its recommendations. As at the date of the publication of this Annual Report, the Company considers its governance practices are substantially compliant with the NZX Code. The only exception is Recommendation 2.5 Measurements for Diversity and are explained in Our People section on pages 44–51.

This governance statement was approved by the Board on 20 September 2018 and is current as at that date.

The Company's constitution, the Board and committee charters, codes and policies referred to in this statement are available to view at *www.thewarehousegroup.co.nz/investor-centre/corporate-governance*

CODE OF ETHICAL BEHAVIOUR

"Directors should set a high standard of ethical behaviour, model this behaviour, and hold management accountable for delivering these standards being followed throughout the organisation."

The Company is committed to fostering the highest standards of ethical behaviour and good conduct. We believe this is at the heart of having a reputation as a trusted and respected company that promotes honesty, integrity and ethical conduct across the organisation in day-to-day behaviour and decision-making.

Code of Ethics

The Code of Ethics sets out the standards of conduct expected of everyone working at The Warehouse Group Limited including Directors, our people, contractors and other agents. The Code of Ethics provides a guide to the conduct that is consistent with the Company's values and behaviours, business goals and legal obligations, and outlines internal reporting procedures for any breaches. Sanctions for breaches may include serious disciplinary action, removal from office and dismissal as well as other remedies, all to the extent permitted by law and as appropriate given the specific circumstances. An introduction to the Code of Ethics forms part of the induction and training process of new employees. The Code is available on the Corporate Governance section of the website and the Company's intranet.

Securities Trading Policy

The Company is committed to transparency and fairness in dealing with all of its stakeholders and to ensuring adherence to all applicable laws and regulations. The Securities Trading Policy governs trading in the Company's securities by Directors, employees and other associated persons. The policy and timing of black-out periods is set out in the Securities Trading Policy, and can be found on the Corporate Governance section of the website.

BOARD COMPOSITION AND PERFORMANCE

"To ensure an effective Board, there should be a balance of independence, skills, knowledge, experience and perspectives."

Responsibilities of the Board

The central role of the Board is to set the strategic direction, to select and appoint the Company's Group Chief Executive Officer (Group CEO) and to oversee the Company's management and business activities with the primary objective to create and continue to build, sustainable value for shareholders.

The Board has adopted a *Board Charter* which sets out how the Board will achieve its purpose. The Charter was last approved in April 2018 and is available in the Corporate Governance section of the website. Going forward it will be reviewed as required and at least every two years. The Board's responsibilities contained in the Charter include:

- set strategic direction and appropriate operating frameworks;
- monitor Management's performance within those frameworks;
- ensure there are adequate resources available to meet the Company's objectives;
- appoint and remove the Group CEO and oversee succession plans for the senior executive team;
- set criteria for, and evaluate the performance of, the Group CEO and approve his or her remuneration;
- approve and monitor financial reporting and capital management including the payment of dividends;
- monitor the financial solvency of the Company;
- subject to shareholder approval being granted, approve the appointment and retention of the external auditor;
- ensure that effective risk management procedures are in place and are being used;
- approve timely and balanced communication to shareholders;
- ensure, so far as is reasonably practicable, a safe and healthy working environment is provided and maintained for all employees, customers, contractors and visitors;
- promote and authorise ethical and responsible decision-making by the Company;
- ensure the Company has appropriate corporate governance structures in place including standards of ethical behaviour;
- annually review, approve and adopt the Diversity Policy and diversity objectives, and measure achievement against the objectives; and
- ensure that the Board is and remains appropriately skilled to meet the changing needs of the Company.

Day-to-day management and administration of the Company is undertaken by the Group CEO in accordance with the strategy, plans and delegations approved by the Board. The Group CEO is assisted by the executive management team in delivering the Company's strategy. The Board has implemented appropriate procedures to enable management to undertake its delegated duties and for performance to be assessed. More information can be found in the Remuneration section on pages 111–113.

Chair

Joan Withers is Chair of The Warehouse Board and was first appointed in 2016. Mrs Withers is an independent, non-executive director. Mrs Withers' responsibilities include:

- providing leadership to the Board and to the Company;
- ensuring the efficient organisation and conduct of the Board;
- monitoring Board performance annually;
- facilitating Board discussions to ensure core issues facing the Company are addressed;
- briefing all Directors in relation to issues arising at Board meetings;
- facilitating the effective contribution and ongoing development of all Directors;
- promoting consultative and respectful relations between Board members and between the Board and Management; and
- chairing Board and shareholder meetings.

The Warehouse Group Limited charter states the Company's Chair must not be the same person who is the Company's Chief Executive Officer.

Director Appointments

Procedures for the appointment and removal of Directors are governed by the Company's constitution. The Corporate Governance and Nominations Committee is delegated with the responsibility of identifying and nominating, for the approval of the Board, candidates to fill Board vacancies as and when they arise. In doing so the Committee will seek to identify the necessary and desirable competencies that will ensure that any candidate it puts forward will enable the Board to:

- fulfil its responsibilities;
- represent a variety of skills, expertise, experience (including commercial and/or industry experience and diversity of backgrounds and thought); and
- competently address accounting, finance and legal matters.

Governance report

During FY18 the Board has spent a significant amount of time at Board meetings considering initial recommendations of the Corporate Governance and Nominations Committee regarding potential candidates for appointment to complement the existing Board skill mix.

The terms and conditions of appointment are set out in a letter of appointment which details the Director's duties, term of appointment (subject to shareholder approval), expectations of the role and remuneration. A copy of the standard letter is available in the Corporate Governance section of the website.

In addition, the Company indemnifies and provides insurance to Directors in accordance with The Companies Act for certain claims which may be brought against them as Directors.

Board structure, skills and composition

The current Board comprises Directors with a mix of qualifications, skills and experience appropriate to the Company's existing operations and strategic directions. Qualifications and experience of individual Directors are detailed on pages 16 and 17,

Director induction and development

When appointed to the Board, all new Directors undergo a detailed induction programme to familiarise them with the Company's businesses and strategy.

Ongoing training includes briefings by senior management and guest speakers on relevant industry and competitive issues, occasional overseas study tours and site-visits. Directors are actively encouraged to attend regular Institute of Director (IOD) courses.

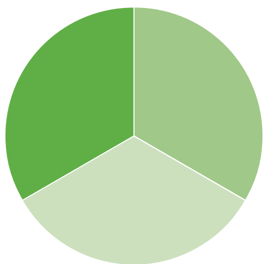
Directors and Board committees have the right, in connection with their duties and responsibilities, to seek independent professional advice at the Company's expense.

Board tenure

The Constitution provides that the size of the Board should be between five and 10. Each year, one third of the Directors, or if their number is not a multiple of three then the nearest number to three, shall retire from office and may offer themselves for re-election at the annual meeting of shareholders. Directors to retire are those who have been longest in office since they were last elected or deemed elected.

The Board does not believe that any Director has served on the Board for a period which could, or could reasonably be perceived to, materially interfere with the Director's ability to act in the best interests of the Company. The Board considers that Directors retain independence of character and judgement regardless of length of service.

Sir Stephen Tindall was granted a leave of absence from the Board in October 2017 until October 2018. Sir Stephen Tindall has decided to take a further 12 months leave of absence from his directorship of The Warehouse Group due to his current workload which includes the hosting of the 2021 America's Cup in Auckland, his ongoing work with The Tindall Foundation and investment vehicle K1W1 and involvement in some of his larger investments



NAME OF DIRECTOR	ORIGINALLY APPOINTED	LAST REAPPOINTED/ ELECTED
Joan Withers	23 September 2016	25 November 2016
Sir Stephen Tindall	10 June 1994	24 November 2017
Keith Smith	10 June 1994	24 November 2017
Antony (Tony) Balfour	15 October 2012	20 November 2015
John Journee	17 October 2013	25 November 2016
Julia Raue	23 September 2016	25 November 2016

including Lanzatech and Rocket Lab. Robbie Tindall will continue to act as his alternate on The Warehouse Group board. This extended leave of absence has been approved by the Board.

Director independence and conflicts

The Board's standards for determining the independence of a Director, including the requirements of the NZX Listing Rules, are set out in full in the Board Charter.

Under this criteria, the Board has a majority of independent Directors and the roles of Chair and Group Chief Executive Officer (CEO) are not exercised by the same person.

The Board consists of six Directors. Joan Withers (Chair), Keith Smith (Deputy Chair), Antony (Tony) Balfour, John Journee and Julia Raue are considered to be independent non-executive Directors. Sir Stephen Tindall, and his alternate director Robbie Tindall are not deemed to be independent by virtue of their shareholding in the Company. The Board assesses the independence of directors on their appointment and at least annually thereafter.

The Board is conscious of its obligations to ensure that Directors avoid conflicts of interest between their duty to the Company and their own interests. Where conflicts of interest do exist at law then the Director must disclose their interest. Directors and Team Members are required to minimise any potential conflicts in line with the Company's *Code of Ethics*.

Board evaluation

The Chair, with the assistance of appropriate external advisors, regularly assesses the performance of individual Directors whilst Directors also assess the collective performance of the Board and the performance of the Chair. A formal evaluation is regularly conducted with assistance from an outside facilitator.

Future Directors programme

Continuing the Company's commitment to supporting the next generation of governance talent in New Zealand, the Board appointed Mr Vena Crawley in August 2017 as part of the Future Directors initiative administered by the Institute of Directors in New Zealand. Mr Crawley attended the first Board meeting on 24 August 2017 and his appointment will continue through to the 2018 Annual Meeting. The Board is in the process of appointing another Future Director who will commence as soon as practicable after the 2018 Annual Meeting.

BOARD COMMITTEES

"The Board should use committees where this would enhance its effectiveness in key areas, while still retaining board responsibility."

The Board has established committees that focus on particular areas of the Board's responsibilities and together ensure the efficient performance of the Board, and the achievement of Corporate Governance outcomes. The committees report to the full Board on all material matters and issues requiring Board decisions. From time to time, the Board may create ad hoc committees to examine specific issues on its behalf. As at the date of this statement, the Company has no other ad hoc committees.

Current committees

The current committee structure is set out in the table below.

After the 2017 Annual Meeting the Board reviewed the composition of committees and Keith Smith was appointed Chair of the Audit and Risk Committee, Joan Withers was appointed Chair of the Corporate Governance and Nominations Committee and Tony Balfour was appointed Chair of the People and Remuneration Committee.

In December 2017 the Board decided to introduce a Health, Safety and Wellbeing Committee to reflect the importance of health, safety and wellbeing within the governance framework.

Committee charters

All committees operate under formal charters which define the role, authority and operations of the committee and can be found in the Corporate Governance section of the website. Going forward charters are reviewed as required and at least every two years.

Takeover offer protocols

The Company has takeover protocols that meet the requirements of the 2017 NZX.

Governance report

COMMITTEE	ROLES AND RESPONSIBILITIES	MEMBERSHIP	MEETINGS
People and Remuneration Committee	Review and make recommendations in relation to the human resources strategy, the Company's remuneration policies and practices and the remuneration and performance of the Group Chief Executive Officer.	Comprised of a majority of non-executive, independent Directors. Current members: • Tony Balfour (Chair) • Joan Withers • Keith Smith • Robbie Tindall as alternate for Sir Stephen Tindall	At least twice a year. Employees may only attend by invitation.
Corporate Governance and Nominations Committee	Ensure a high level of corporate governance through continuous monitoring of international corporate governance best practice as promulgated by the relevant authoritative bodies. Ensure that the board is populated with an appropriate mix of skills and experience who collectively provide the diversity of thought and judgement required.	Comprised of a majority of independent Directors. Current members: • Joan Withers (Chair) • Keith Smith • Tony Balfour • Robbie Tindall as alternate to Sir Stephen Tindall • Group CEO, CFO and Company Secretary	At least twice a year.
Disclosure Committee	Support the Company in meeting its disclosure obligations as set out in the NZX Main Board Listing Rules, the Companies Act and any other applicable regulations by overseeing the Company's compliance with this Policy.	Comprised of the Chair, Deputy Chair, Chair of the Audit and Risk Committee, Group Chief Executive Officer, Chief Financial Officer, Disclosure Officer and Founder. Current members: • Keith Smith (Chair) • Joan Withers • Robbie Tindall as alternate to Sir Stephen Tindall • Group CEO, CFO and Company Secretary	Held as required.
Audit and Risk Committee	Assist the Board to fulfil its risk and audit responsibilities.	Comprised of at least three independent Directors. The Chair will be independent and may not be the Chair of the Company. Current members: • Keith Smith (Chair) • Joan Withers • John Journee • Julia Raue Keith Smith is a Fellow of the Chartered Accountants Australia and New Zealand (CAANZ)	At least three times each year. Employees may only attend by invitation.
Health, Safety and Wellbeing Committee	Assist the Board to govern health, safety and wellbeing.	Comprised of all Directors Chair • Julia Raue	At the discretion of the Committee Chair.

The table below reports attendance of members at Board and Board Committee meetings during the year ended 29 July 2018.

	BOARD	AUDIT AND RISK COMMITTEE	PEOPLE AND REMUNERATION COMMITTEE	CORPORATE GOVERNANCE AND NOMINATION COMMITTEE	HEALTH, SAFETY AND WELLBEING COMMITTEE[3]	DISCLOSURE COMMITTEE
NUMBER OF MEETINGS	**15**	**5**	**5**	**1**	**7**	**1**
Tony Balfour	14	1[1]	5	1	6	
John Journee	15	5	2[1]		7	1[1]
Keith Smith	14	5	5	1	6	1
Sir Stephen Tindall[2]	2		2			
Robbie Tindall	13	4[1]	1	1	7	
Joan Withers	15[1]	5	5	1	7	1
James Ogden	5	2	2[1]		1	
Vanessa Stoddart	5	2[1]	3		1	
Julia Raue	15	5			7	

[1]Non-committee member in attendance [2]Leave of Absence October 2017 to October 2018 [3]Held in conjunction with Board meetings during FY18

REPORTING AND DISCLOSURE

"The Board should demand integrity in financial and non-financial reporting and in the timeliness and balance of corporate disclosures."

The Board is committed to providing full and timely financial and non-financial information that is accurate, balanced, meaningful and consistent. As a listed company, keeping the market informed is a key component to ensure the securities are valued fairly.

Market Disclosure Policy

The Board has approved a *Market Disclosure Policy* which describes the processes designed to ensure that the Company meets its reporting and disclosure objectives and all disclosure obligations under the NZX Listing Rules.

To assist the Company with its Market Disclosure Policy, the Board has appointed a Disclosure Committee. The Committee is responsible for making decisions on what should be disclosed publicly under the Market Disclosure Policy. The Company Secretary is the Disclosure Officer of the Company and has responsibility for ensuring compliance with the continuous disclosure requirements, and overseeing and co-ordinating disclosure to the market.

Financial reporting

The Audit and Risk Committee oversees the quality and integrity of external financial reporting including the accuracy, completeness and timeliness of financial statements. The Committee is committed to providing balanced, clear and objective financial reporting.

It reviews half-yearly and annual financial statements and makes recommendations to the Board concerning accounting policies, areas of judgement, compliance with accounting standards, stock exchange and legal requirements, and the results of the external and internal audit.

Management accountability for the integrity of the Company's financial reporting is reinforced by certification from the CEO and the CFO. The CEO and CFO have provided the Board with written confirmation that the Company's financial report presents a true and fair view, in all material respects, of the Company's financial position for the year ended 29 July 2018, and that operational results are in accordance with relevant accounting standards.

Non-financial reporting

The Company's Corporate Governance section on the website includes all key governance documents including the Code of Ethics, Board and Committee Charters and relevant Company policies.

Communities and Environment are at the heart of the Company's culture. Our philosophy and achievements are outlined on pages 52–67. The Company reports annually its financial and non-financial contribution to the community, as well as audited figures on its greenhouse gas emissions. The Company's material environmental, economic and social risks are outlined on pages 62–67.

REMUNERATION

"The remuneration of directors and executives should be transparent, fair and reasonable."

The Company's remuneration philosophy, policy and details regarding executives' remuneration (including remuneration components and performance criteria) are discussed on pages 111–113. The current Directors' fee pool limit is $900,000, which was approved by the shareholders at the 22 November 2013 annual meeting of shareholders. Fees are paid for Board and committee roles as indicated below. Directors are reimbursed for reasonable travel and other costs associated with fulfilling his or her role. The Chair and Deputy Chair do not receive additional fees for membership of other Board committees.

The Board considers the advice of independent remuneration consultants when setting remuneration levels and will not be seeking any increase in the pool limit at the 2018 Annual Shareholders Meeting.

BOARD/COMMITTEE NAME	POSITION	FEES (PER ANNUM)
Board of Directors	Chair	$166,000[1]
	Deputy Chair	$115,000[1]
	Member	$78,525
Audit and Risk Committee	Chair	$15,000
	Member	$7,500
People and Remuneration Committee	Chair	$12,000
	Member	$6,000
Health, Safety and Wellbeing Committee	Chair	$12,000
	Member	-
Corporate Governance and Nominations Committee	Chair	-
	Member	-
Disclosure Committee	Chair	-
	Member	-

[1]Includes attendances at committee meetings

The fees paid to non-executive directors for services in their capacity as directors during the year ended 29 July 2018 totalling $721,100 were paid as follows:

Actual Director Remuneration 2017/18

NAME OF DIRECTOR	BOARD FEES	AUDIT AND RISK COMMITTEE	PEOPLE AND REMUNERATION COMMITTEE	CORPORATE GOVERNANCE AND NOMINATIONS COMMITTEE	DISCLOSURE COMMITTEE	HEALTH, SAFETY AND WELLBEING COMMITTEE	OTHER COMMITTEES	SHARES AND OTHER PAYMENTS OR BENEFITS	TOTAL INDIVIDUAL REMUNERATION
Joan Withers (Chair)	$166,000 (Chair)	- (member)	- (member)	- (Chair)	- (member)	- (member)	-	-	$166,000
Keith Smith (Deputy Chair)	$115,000 (Deputy Chair)	- (Chair)	- (member)	- (member)	- (Chair)	- (member)	-	$8,000[2]	$123,000
James Ogden[1]	$38,000	-	-	-	-	-	-	$8,000[2]	$46,000
Tony Balfour	$78,525	-	$6,000 (Chair)	-	-	- (member)	-	-	$84,525
Stephen Tindall[3]	$78,525	-	$6,000 (member)	-	- (member)	- (member)	-	-	$84,525
Vanessa Stoddart[1]	$37,000	-	-	-	-	-	-	-	$37,000
Julia Raue	$78,525	$7,500 (member)	-	-	-	- (Chair)	-	-	$86,025
John Journee	$78,525	$7,500 (member)	-	-	-	- (member)	-	-	$86,025

[1]Retired November 2017 [2]Fees in their capacity as directors with the Company's discontinued Financial Services Business [3]Director fees on-paid to Robbie Tindall, Alternate Director

Governance report

RISK MANAGEMENT

"Directors should have a sound understanding of the material risks faced by the issuer and how to manage them. The Board should regularly verify that the issuer has appropriate processes that identify and manage potential and material risks."

Risk Management Framework

Risk is the chance of something happening that will have an impact on business objectives. Having established an acceptable risk tolerance, the Company's approach is to identify, analyse, evaluate and appropriately manage risk in the business.

The Company recognises three main types of risk:

- Operational risk – risk to earnings and reputation arising from inadequate or failed internal processes, people and systems or from external events;
- Business risk – risk to earnings and reputation from business event risk, legal, compliance or regulatory risk; and
- Market risk – risk to earnings and reputation arising from competitor activity, product risk and risk associated with changes in financial markets (such as interest rate, foreign exchange and liquidity risk).

Material risks identified

Information on material risks the business faces and how they are managed, is outlined on pages 68–71.

Risk management roles and responsibilities

The Board is responsible for reviewing and approving the Company's risk management strategy. The Board delegates day-to-day management of risk to the CEO who may further delegate such responsibilities to executive and other officers. Inherent in this delegation is the belief that responsibility for managing risks in the business is the domain of the business unit.

Risk monitoring and evaluation

While the Board of Directors is ultimately responsible for the risk management of the Company, the Audit and Risk Committee reviews the reports of management and the external and internal auditors on the effectiveness of systems for internal control, financial reporting and risk management. To assist in discharging this responsibility, the Board has in place a number of strategies designed to safeguard the Company's assets and interests and ensure the integrity of reporting. These reports include quarterly reviews of store audit results and quarterly reports on internal audit findings.

Health and safety

The Company's approach and process on health and safety initiatives can be found on pages 44–51.

AUDITORS

"The Board should ensure the quality and independence of the external audit process."

Approach to audit governance

The independence of the external auditor is of particular importance to shareholders and the Board. The Audit and Risk Committee is responsible for overseeing the external audit of the Company. Accordingly, it monitors developments in the areas of audit and threats to audit independence to ensure its policies and practices are consistent with emerging best practice in these areas.

The Board has adopted a policy on audit independence, the key elements of which are:

- the external auditor must remain independent of the Company at all times and comply with the Chartered Accountants Australia and New Zealand (CAANZ) Code of Ethics;
- the external auditor must monitor its independence and annually report to the Board that it has remained independent;
- the audit firm is permitted to provide certain non-audit services, set out in the Audit and Risk Management Committee Charter, that are not considered to be in conflict with the preservation of the independence of the auditor; and
- the Audit and Risk Committee must approve significant permissible non-audit work assignments that are awarded to an external auditor, and the value of non-audit work must be reported at every Board meeting.

Engagement of the external auditor

The Company's external auditor is PricewaterhouseCoopers ("PwC"). PwC was appointed by shareholders at the 2004 Annual Meeting in accordance with the provisions of the Companies Act 1993 (Act). PwC is automatically reappointed as auditor under Section 200 of the Act.

Attendance at the Annual Meeting

PwC, as auditor of the 2018 Financial Statements, has been invited to attend this year's Annual Meeting and will be available to answer questions about the conduct of the audit, preparation and content of the auditors' report, accounting policies adopted by The Warehouse Group Limited and the independence of the auditor in relation to the conduct of the audit.

The Company's corporate legal advisers, Russell McVeagh, will also attend the Annual Meeting.

Internal audit

The Company has an internal audit function which is independent of the Company's external auditors. The internal audit function of the Company is undertaken by Ernst and Young and the Company's internal audit team. The respective internal audit teams report to and are directed by the Audit and Risk Committee.

Each year, the internal audit programme is approved by the Audit and Risk Committee. The programme of audit work considers the most significant areas of business risk in the Company and is developed following discussions with senior management, review of the business process model of the Company and consideration of the findings of the strategic risk assessment. The programme considers risks also in relation to major projects that are planned or currently under way.

The role of internal audit is to:

- assess the design and operating effectiveness of controls governing key operations, processes and business risks;
- provide the Board with an assessment, independent of management, as to the adequacy of the Company's internal operating and financial controls, business processes, systems and practices; and
- assist the Board in meeting its corporate governance and regulatory responsibilities.

SHAREHOLDER RIGHTS AND RELATIONS

"The Board should respect the rights of shareholders and foster constructive relationships with shareholders that encourage them to engage with the issuer."

The Company is committed to providing a high standard of communication to its investors. The Company believes effective communication achieved by equal access to timely, accurate and complete information allows investors to make informed assessments of the Company's value and prospects. Investor communication is governed by the *Shareholder Communication Policy.*

The Company has an investor relations programme which includes communication through:

- periodic and continuous disclosure to NZX;
- interim and annual reports;
- the Annual Shareholders' Meeting (ASM);
- the Company's website which includes financial and operational information, and key Corporate Governance information; and
- analyst and investor briefings and roadshows.

Engagement with investors

The Company values its dialogue with strategic stakeholders, institutional and retail investors, and believes effective engagement benefits both the Company and investors. ASMs, analyst and investor briefings and roadshows provide an important opportunity for this dialogue. Shareholders also have the opportunity to direct questions and comments through investor@twgoup.co.nz.

Statutory Disclosures

Website

The Company's website contains a comprehensive set of investor-related material and data including NZX disclosures and media releases, interim and annual reports, share-price and dividend information, shareholder meeting materials and all of the Company's governance charters and policies.

Annual Shareholders Meeting (ASM)

The ASM provides an opportunity for Directors, the Group CEO, senior management and the Company's external auditor to meet shareholders and answer any questions they may have.

The ASM is held at a convenient time and location as well as being webcast to maximise participation. The 2018 ASM will be held on 23 November 2018. The Notice of Meeting will be circulated as soon as possible (at least 28 days before the meeting) and will be posted on the Company's website.

In accordance with the Companies Act and Listing Rules, the Company refers any significant matters to shareholders for approval at the ASM, and shareholders are given the opportunity to vote by proxy ahead of the meeting or by polling if attending the meeting in person.

Electronic communication

A key component of the Company's strategy is cost effectiveness and minimising the Company's impact on the environment. Therefore, in 2016 the Board moved to electronic reporting. We understand this does not suit everyone, so shareholders can request a hard copy of the annual or interim report to be mailed to them free of charge by contacting Computershare, our share registrar. We would also encourage shareholders to provide their email addresses to Computershare to enable them to receive all other shareholder materials electronically.

Computershare Investor Services Limited
Telephone: +64 9 488 8777
Email: investor@twgroup.co.nz

Difference in practice to the NZX Code

The Company believes it substantially complies with the 2017 NZX code, with the exception of Recommendation 2.5 Measurements for Diversity. The Board considers good progress has been made in respect of Diversity and Inclusion. While quantitative and qualitative measures are in place, the Company intends to enhance its quantitative measures going forward.

Statutory Disclosures

DISCLOSURES OF INTERESTS BY DIRECTORS

General disclosures

The following are particulars of general disclosures of interest given by the Directors of the Company pursuant to section 140(2) of the Companies Act 1993:

ANTONY (TONY) BALFOUR

Director, Les Mills International Limited
Director, Methven Limited
Director, Mt Difficulty Wines Limited
Director, Real Journeys Limited and subsidiaries
Director, Silver Fern Farms Co-operative Limited

JOHN JOURNEE

Chairman, Flux Foundation Limited (resigned)
Chairman, Max Fashions Holdings Limited and subsidiary
Director, Southern Hospitality Limited (resigned)
Director, Vanishing Point Limited

KEITH SMITH

Chairman, Anderson & O'Leary Limited
Chairman, Goodman (NZ) Limited
Chairman, Healthcare Holdings Limited and subsidiaries
Chairman, Mobile Surgical Services Limited
Chairman, H J Asmuss & Co Limited and subsidiaries
Director, Community Financial Services Limited
Director, Electronic Navigation Limited (resigned)
Director, Enterprise Group Limited and subsidiaries
Director, Gwendoline Holdings Limited (non-trading)
Director, James Raymond Holdings Limited (non-trading)
Director, The Ascot Hospital & Clinics Limited and subsidiaries
Director, Mercury NZ Limited
Director, Tree Scape Limited
Director, Westland Co-operative Dairy Limited
Member, Advisory Board NZ Tax Traders Limited
Trustee, Cornwall Park Trust Board

JULIA RAUE

Director, Jade Software Corporation Limited
Director, Southern Cross Health Society
Director, Television New Zealand Limited
Director, Z Energy Limited
Director & Shareholder, Rowdy Consulting Limited
Member, Risk & Audit Committee of The Treasury

JOAN WITHERS

Chair, Mercury NZ Limited
Director, ANZ Bank New Zealand Limited
Director, On Being Bold Limited
Member, MBIE Economic Development Challenge Group
Trustee, Sweet Louise Foundation

SIR STEPHEN TINDALL

Founding Director, KEA New Zealand
Director, Branches Station Limited
Director, Byron Corporation Limited
Director, Foundation Services Limited
Director, Elliott Street No 5 Limited
Director, K One W One Limited
Director, K One W One (No.2) Limited
Director, K One W One (No.3) Limited
Director, K One W One (No.4) Limited
Director, Lake Pupuke Investments Limited
Director, Norwood Investments Limited
Director, No Holdings Limited
Director, The Gorse Company Limited
Director, Team New Zealand Limited
Director, America's Cup Event Limited
Trustee, Team New Zealand Trust
Trustee, The Tindall Foundation
Shareholder*, Solar City Ltd
Shareholder*, Velocity Made Good Holdings Ltd
Shareholder*, Ask Nicely Ltd
Shareholder*, Auror Ltd
Shareholder*, Career Engagement Group Ltd
Shareholder*, MEA Mobile Ltd
Shareholder*, PicsOS Ltd
Shareholder*, Qotient Group Ltd
Shareholder*, SLI Systems Ltd
Shareholder*, Snakk Media Ltd
Shareholder*, Sportsground Ltd
Shareholder*, TNX Ltd
Shareholder*, 1Above Ltd
Shareholder*, VWork Ltd

*Indirect interest

ROBERT TINDALL (ALTERNATE DIRECTOR)#

Trustee, The Tindall Foundation
Director, Foundation Services Limited
Director, Franklin Smith Limited
Director, K One W One Limited
Director, K One W One (No.2) Limited
Director, K One W One (No.3) Limited
Director, K One W One (No.4) Limited

#alternate to Sir Stephen Tindall

INDEMNITY AND INSURANCE

In accordance with section 162 of the Companies Act 1993 and the constitution of the Company, the Company has provided insurance for, and indemnities to, Directors and employees of the Group and its subsidiaries for losses from actions undertaken in the course of their legitimate duties. The insurance includes indemnity costs and expenses incurred to defend an action that falls outside the scope of the indemnity.

DIRECTORS' SECURITY PARTICIPATION

Directors' shareholdings as at 29 July 2018

At 29 July 2018 the following directors, or entities related to them, held interests in the Company shares:

	BENEFICIAL INTEREST	BENEFICIAL INTEREST	NON-BENEFICIAL INTEREST	NON-BENEFICIAL INTEREST	RELATED PARTY	RELATED PARTY
	2018	2017	2018	2017	2018	2017
J Journee	172,000	172,000				
K R Smith	13,250	13,250	7,602,572	8,155,455	32,800	32,800
R J Tindall[1]	4,800	4,800	7,233,252	7,233,252	84,738,511	84,738,511
Sir Stephen Tindall	93,687,096	93,687,096	7,986,050	7,986,050	9,600	9,600
J Withers	8,914		1,797,697	2,350,580		

[1]Alternate director

Major shareholdings in which more than one Director has an interest in the same parcel of shares are as follows:

- Sir Stephen Tindall and Robert Tindall both hold an interest in 93,687,096 shares and other smaller parcels by virtue of their family relationship.

Share dealings by Directors

During the year, the Directors disclosed in respect of section 148(2) of the Companies Act 1993 that they acquired or disposed of a relevant interest in shares as follows:

SHARE TRANSACTION	DATE OF TRANSACTION	NUMBER OF ORDINARY SHARES ACQUIRED/(DISPOSED)	CONSIDERATION
J Withers and K R Smith as trustees of The Warehouse Management Trustee Company No.2 Limited	November 2017	(552,883)	Settlement of obligations under the executive share scheme
J H Ogden	November 2017	(59,000)	On market sale of shares at an average price of $2.11 per share
K R Smith	December 2017	(4,530,947)	Nil, resignation as Trustee

SUBSIDIARY COMPANY DIRECTORS

The following people held office as Directors of subsidiary companies at 29 July 2018. Those who retired during the year are indicated with an ('R').

COMPANY	DIRECTORS
1-Day Limited	K Nickels
1-Day Liquor	K Nickels
Bond and Bond Limited	B Moors, K Nickels
Boye Developments Limited	K Nickels, M Yeoman
Diners Club (NZ) Limited	M Yeoman, K Nickels, G Hansen (R), M Laing (R), J Ogden (R), K Smith (R), N Grayston (R)
Eldamos Investments Limited	P Judd, K Nickels, P Okhovat
Eldamos Nominees Limited	P Judd
Noel Leeming Finance Limited	B Moors
Noel Leeming Financial Services Limited	B Moors, K Nickels
Noel Leeming Furniture Limited	B Moors, K Nickels
Noel Leeming Limited	B Moors, K Nickels
Noel Leeming Group Limited	B Moors, K Nickels
The Book Depot Limited	K Nickels
The Warehouse Card Limited	K Nickels
The Warehouse Group Support Services Limited	P Judd, K Nickels
The Warehouse Group Investments Limited	N Grayston, T Kasbe, K Nickels, M Yeoman
The Warehouse Investments Limited	K Nickels
The Warehouse Limited	P Judd, K Smith, N Grayston, M Yeoman
The Warehouse Nominees Limited	K Nickels, B Moors
Torpedo7 Limited	P Okhovat, B Moors
TWGA Pty Ltd	I McGill, B Moors, K Smith, Sir Stephen Tindall
TWL Australia Pty Limited	I McGill, B Moors, K Smith, Sir Stephen Tindall
TWL Products Limited	B Moors
TWP No.1 Limited	P Judd, N Tuck
TWP No.3 Limited	P Judd, K Nickels, N Tuck
TWP No.4 Limited	B Moors, K Nickels
TWP No.5 Limited	B Moors, P Okhovat
TWP No.6 Limited	G Hansen (R), M Laing (R), J Ogden (R), K Smith, M Yeoman
Waikato Valley Chocolates Limited	N Craig, P Judd, M Razey, H Vetsch, J Adams (R), M Anderson
Warehouse Stationery Limited	P Judd, P Okhovat

TEAM MEMBERS' REMUNERATION

Grouped below, in accordance with section 211(1)(g) of the Companies Act 1993, are the number of Team Members or former Team Members, not being directors or former directors, who received remuneration and other benefits valued at or exceeding $100,000 during the year under review.

Remuneration includes redundancy payments and termination payments made during the year to Team Members whose remuneration would not otherwise have been included in the table reported below.

Team Members also received share-based remuneration during the year as part of the Group's long-term incentive plans (refer note 14 to the financial statements). The amount attributed to share-based remuneration presented in the table below represents the value to the employee of the compensation determined using the share price on the date when share options were exercised by the Team Member and/or the share price on the date when share rights vested.

REMUNERATION	NUMBER OF TEAM MEMBERS	
($000)	EXCLUDING SHARE BASED REMUNERATION	INCLUDING SHARE BASED REMUNERATION
100 - 110	84	84
110 - 120	64	63
120 - 130	65	66
130 - 140	55	54
140 - 150	24	24
150 - 160	33	33
160 - 170	27	24
170 - 180	13	17
180 - 190	12	11
190 - 200	12	13
200 - 210	10	9
210 - 220	1	2
220 - 230	5	5
230 - 240	7	5
240 - 250	3	2
250 - 260	7	7
260 - 270	1	3
270 - 280	5	3
280 - 290	5	5
290 - 300	2	3
300 - 310	2	2
310 - 320	3	3
320 - 330	7	5
330 - 340	2	-
340 - 350	1	5

REMUNERATION	NUMBER OF TEAM MEMBERS	
($000)	EXCLUDING SHARE BASED REMUNERATION	INCLUDING SHARE BASED REMUNERATION
350 - 360	-	1
360 - 370	2	-
370 - 380	2	2
380 - 390	1	2
390 - 400	1	1
400 - 410	-	1
420 - 430	1	1
430 - 440	1	1
450 - 460	1	1
470 - 480	1	-
480 - 490	1	1
490 - 500	1	2
510 - 520	1	2
620 - 630	2	-
640 - 650	-	1
650 - 660	-	1
690 - 700	1	-
750 - 760	-	1
760 - 770	1	1
870 - 880	1	-
940 - 950	-	1
970 - 980	1	-
1040 - 1050	1	1
1100 - 1110	-	1
1780 - 1790	1	1

Statutory Disclosures

REMUNERATION REPORT

1. Group CEO remuneration FY18

		BASE PACKAGE		PAY FOR PERFORMANCE			
	SALARY	TAXABLE BENEFITS	SUBTOTAL	STI	LTI	SUBTOTAL	TOTAL REMUNERATION
Nick Grayston	1,415	54	1,468	768		768	2,236

2. 5 year summary of group CEO remuneration

YEAR	GROUP CEO	TOTAL EARNINGS	BASE	TAXABLE BENEFITS	STI	STI AS % OF MAXIMUM	LTI
FY18	Nick Grayston	2,236	1,415	54	768	96%	-
FY17	Nick Grayston	1,773	1,415	25	333	31%	-
FY16	Nick Grayston	1,398	934*	-	464*	66%	-
	Mark Powell	646	733	26	-	-	(103)
FY15	Mark Powell	1,594	1,263	38	-	-	293
FY14	Mark Powell	1,561	1,227	51	-	-	283

*The FY16 base salary and STI payment for Nick Grayston were pro-rata based on his start date of November 2015.

Explanation of the above items

1 The FY18 STI figure for Nick Grayston represents a payment equivalent to 109% of this potential (96% of maximum potential) for delivery of financial and individual goals (see breakdown below).

2 No LTI will be payable for Nick Grayston until October 2019 when the three-year performance cycle is completed.

3 Nick Grayston joined the Group in November 2015 and replaced Mark Powell, who left at the end of January 2016 following a three-month handover period.

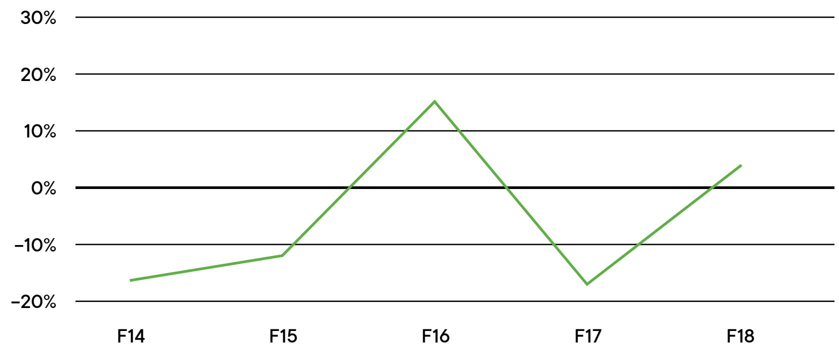
4 Taxable benefits are the cash value of employer contributions to Kiwisaver contributions made before any employer superannuation contribution tax (ESCT) has been withheld.

5 The LTI for Mark Powell was equity-settled share-based compensation and represents the annual expense recognised in the income statement for share rights granted to executives on the fair value of the share rights measured at grant date, which is likely to be different from the market value of the share rights at the date when and if the share rights vest.

3. Breakdown of pay for performance (FY18)

	DESCRIPTION	PERFORMANCE MEASURES	PERCENTAGE ACHIEVED
STI	Set at 50% of base salary for On Target performance. Combination of financial and non–financial performance measures. For this to be payable, the Group must firstly achieve a gate opener of at least 80% of budgeted Adjusted NPAT and a minimum level of individual performance must be achieved.	**Financial Measures: 70% weighting:** A combination of achieving EBIT targets for Group and Financial Services, reducing working capital, and reducing cost of doing business.	70% x 108%
		Individual Measures 30% weighting: Individual goals relate to delivery of strategic imperatives, delivering operational imperatives, health and safety, leadership and community.	30% x 110%
LTI	Cash-based scheme. Potential 50% of base salary for On Target performance for FY18.	100% weighting based on the three–year average Group Adjusted NPAT achieved, calculated as a percentage of the budgeted Group Adjusted NPAT. 50% of potential paid if >95% of target achieved, increasing to a maximum of 150% of potential for achievement of 125% of target.	To be set in September 2020

4. 5 year summary of total shareholder return performance

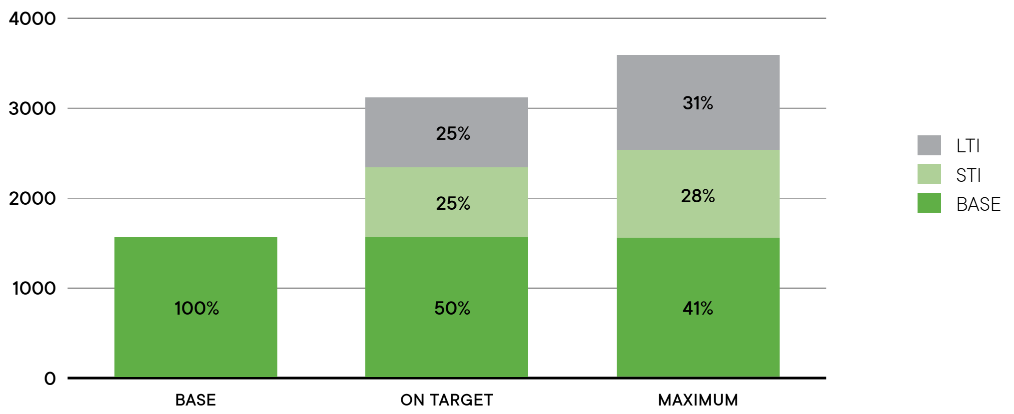


TOTAL SHAREHOLDER RETURN

FY14	–16.9%
FY15	–11.0%
FY16	15.2%
FY17	–18.9%
FY18	3.3%

REMUNERATION POLICY AND DISCLOSURES

5. Potential Group CEO remuneration (FY19)



		BASE PACKAGE		PAY FOR PERFORMANCE			
$000	SALARY	TAXABLE BENEFITS	SUBTOTAL	STI	LTI	SUBTOTAL	TOTAL REMUNERATION
Nick Grayston	1,432	64	1,487	716	716	1,432	2,919

Explanation: Base salary is set at $1.432 million for the financial year. STI is 50% of base salary for On Target performance. The gate for payment is 95% of budgeted Group EBIT and this would result in an STI of 25% of base salary. A maximum of 68% of base salary is payable if 200% of individual goals are exceeded and 110% of budgeted EBIT is achieved. The STI is split: 70% based on Group financial results and 30% individual performance against goals. LTI is 50% of base salary, settled in cash, and is payable at the end of the three-year performance period. The gate for payment is 95% of budgeted Group Adjusted NPAT and this would result in LTI of 25% of base salary. A maximum of 75% of base salary is payable if 125% of budgeted Group Adjusted NPAT is achieved.

6. Scheme Investments awarded to Group CEO

YEAR INVITED	% OF SALARY	SETTLEMENT	PERFORMANCE PERIOD	MEASURE
FY18	50%	Cash	August 2017 to July 2020	Three-year average Group Adjusted NPAT achieved calculated as a percentage of the budgeted Group Adjusted NPAT.
FY19	50%	Cash	August 2018 to July 2021	Three-year average Group Adjusted NPAT achieved calculated as a percentage of the budgeted Group Adjusted NPAT.

7. Required disclosures per guidelines

DESCRIPTION	PERFORMANCE MEASURES
1. Group CEO Pay as a Multiple	35.8 measured on fixed remuneration. Median hourly rate of all Team Members is $19.21 per hour.
2 TSR Methodology	Total Shareholder Return has been calculated as the movement in the share price during the period plus any dividends paid.
3. Board Discretion	The Board of Directors has not exercised any discretion with regards to Group CEO remuneration for FY18. Any payments made or forecasted are in line with contractual or scheme criteria.
4. Omissions	No information has been omitted relating to Group CEO remuneration.
5. Any Other Items	There are no other items payable payable to the Group CEO that are not disclosed.
6. Benefits	There are no benefits attributable to the Group CEO due to any loans made.
7. Withholdings	No part of the Group CEO remuneration has been withheld for any purpose.
8. Estimates	The potential package for Nick Grayston for FY19 has been calculated assuming 100% achievement of financial and individual goals for the STI.. The Taxable Benefits relate to Kiwisaver contributions and assumes 100% payment of the STI.
9. Related Parties	No related parties are involved with the Group CEO remuneration.
10. Payments to Past Group CEOs	No additional payments were made to previous Group CEOs during FY18.
11. Fair Value Calculations	Refer to the Executive Long Term Plan note to the financial statements for details regarding the fair value calculation of equity-settled remuneration for the previous Group CEO.

Statutory Disclosures

TWENTY LARGEST REGISTERED SHAREHOLDERS AS AT 31 JULY 2018

	NUMBER OF ORDINARY SHARES	PERCENTAGE OF ORDINARY SHARES
Sir Stephen Tindall	93,687,096	27.01%
The Tindall Foundation Inc	73,920,496	21.31%
James Pascoe Limited	67,254,042	19.39%
Cash Wholesalers Limited	10,373,363	2.99%
Foodstuffs Auckland Nominees Limited	10,373,363	2.99%
Wardell Bros & Coy Ltd	10,373,363	2.99%
Citibank Nominees (New Zealand) Limited - NZCSD A/C	5,200,633	1.50%
Sir Stephen Tindall, JR Avery and B Mayo-Smith (as Trustees)	3,778,149	1.09%
RG Tindall, GM Tindall, Sir Stephen Tindall & Pupuke Trustee Limited (as Trustees)	3,455,103	1.00%
Accident Compensation Corporation - NZCSD	2,655,459	0.77%
HSBC Nominees (New Zealand) Limited - NZCSD	1,808,451	0.52%
JB Were (NZ) Nominees Limited	1,639,318	0.47%
HSBC Nominees (New Zealand) Limited - NZCSD	1,215,308	0.35%
The Warehouse Management Trustee Company No.2 Limited	781,822	0.23%
Stephen Robert Tindall and John Richard Avery and Brian Mayo-Smith	752,798	0.22%
FNZ Custodians Limited	700,466	0.20%
The Warehouse Management Trustee Company Limited	667,174	0.19%
James Raymond Holdings Limited	600,000	0.17%
Custodial Services Limited <A/C 4>	510,155	0.15%
Custodial Services Limited <A/C 3>	480,071	0.14%
	290,226,630	83.68%

[1]New Zealand Central Securities Depository Limited (NZCSD) is a depository system which allows electronic trading of members. As at 31 July 2018 total holdings in NZSCD were 11,723,026 or 3.38% of shares on issue.

SUBSTANTIAL PRODUCT HOLDERS

According to notices given to the Company under the Financial Markets Conduct Act 2013, as at 29 July 2018, the substantial product holders in the Company and their relevant interests are noted below:

	RELEVANT INTEREST	DATE OF NOTICE
James Pascoe Limited	68,270,081	10 May 2018
Wardell Bros & Coy Limited, Cash Wholesalers Limited and Foodstuffs (Auckland) Nominees Limited	31,120,089	23 March 2007
Sir Stephen Tindall	84,141,524	19 March 2004
The Tindall Foundation	66,323,220	19 March 2004

Statutory Disclosures

DISTRIBUTION OF SHAREHOLDERS AND HOLDINGS AS AT 31 JULY 2018

SIZE OF SHAREHOLDING	NUMBER OF SHAREHOLDERS	PERCENTAGE	NUMBER OF SHARES	PERCENTAGE
1 - 1,000	3,886	36.61%	1,828,475	0.53%
1,001 - 5,000	4,372	41.19%	9,637,973	2.78%
5,001 - 10,000	1,135	10.69%	7,432,744	2.14%
10,001 - 100,000	1,140	10.74%	25,287,077	7.29%
100,000 and over	82	0.77%	302,656,851	87.26%
	10,615	100.00%	346,843,120	100.00%
GEOGRAPHIC DISTRIBUTION				
Auckland and Northland	4,062	38.27%	305,040,447	87.95%
Waikato and Central North Island	2,226	20.97%	11,789,440	3.40%
Lower North Island and Wellington	1,505	14.18%	7,661,823	2.21%
Canterbury, Marlborough and Westland	1,133	10.67%	16,159,712	4.66%
Otago and Southland	745	7.02%	3,635,243	1.05%
Australia	793	7.47%	1,402,285	0.40%
Other Overseas	151	1.42%	1,154,170	0.33%
	10,615	100.00%	346,843,120	100.00%

DISTRIBUTION OF BONDHOLDERS AND HOLDINGS AS AT 31 JULY 2018

SIZE OF BONDHOLDING	NUMBER OF BONDHOLDERS	PERCENTAGE	NUMBER OF BONDS	PERCENTAGE
5,000 - 9,999	616	31.53%	3,866,000	3.08%
10,000 - 49,999	1,119	57.27%	20,457,000	16.37%
50,000 - 99,999	123	6.29%	7,698,000	6.16%
100,000 - 499,999	81	4.15%	11,657,000	9.33%
500,000 - 999,999	3	0.15%	1,636,000	1.31%
1,000,000 and over	12	0.61%	79,686,000	63.75%
	1,954	100.00%	125,000,000	100.00%
GEOGRAPHIC DISTRIBUTION				
Auckland and Northland	778	39.82%	38,562,000	30.85%
Waikato and Central North Island	343	17.55%	46,988,000	37.59%
Lower North Island and Wellington	399	20.42%	16,066,000	12.85%
Canterbury, Marlborough and Westland	225	11.51%	3,087,000	2.47%
Otago and Southland	202	10.34%	20,188,000	16.15%
Australia	-	-	-	-
Other Overseas	7	0.36%	109,000	0.09%
	1,954	100.00%	125,000,000	100.00%

Other Statutory Information

STOCK EXCHANGE LISTING

The ordinary shares of The Warehouse Group Limited are listed on the New Zealand Stock Exchange (NZX).

ORDINARY SHARES

The total number of voting securities of the company on issue on 31 July 2018 was 346,843,120 fully paid ordinary shares.

Holders of each class of equity security as at 31 July 2018

CLASS OF EQUITY SECURITY	NUMBER OF HOLDERS	NUMBER OF SHARES OR RIGHTS
Ordinary Shares	10,615	346,843,120
Share Rights	32	628,000

RIGHTS ATTACHING TO SHARES

Clauses 20–22 of the Company's constitution set out the voting rights of shareholders. Ordinary shares in the Company each carry a right to vote on a poll at any general meeting of shareholders on any resolution. Holders of ordinary shares may vote at a meeting in person, or by proxy, representative or attorney. Voting may be conducted by voice, a show of hands or a poll. Each of the Company's ordinary shares entitles the holder to one vote.

ON-MARKET SHARE BUY-BACKS

The Company is not, at the date of this annual report, undertaking any on-market share buy-backs.

ESCROW

Apart from the shares held under the Staff Purchase Plan, the Company has no securities subject to an escrow agreement.

DIVIDENDS ON ORDINARY SHARES

The Warehouse Group Limited has paid dividends on its ordinary shares every year without interruption since listing on the New Zealand Stock Exchange in 1994. The Group's current dividend policy was approved by the board in September 2015, commencing from the 2016 financial year. The Group's dividend policy is to distribute between 75% and 85% of the Retail Group's adjusted net profit to shareholders.

On 20 September 2018 the Directors declared a fully imputed final dividend of 6.0 cents per share bringing the total dividend for the year to 16.0 cents per share. The dividends will be fully imputed at a rate of 28.0% and will be paid on 6 December 2018 to all shareholders on the share register at the close of business on 23 November 2018.

The dividends declared for each of the last five financial years were as follows:

Cents per share

DIVIDENDS	2018	2017	2016	2015	2014
Interim	10.0	10.0	11.0	11.0	13.0
Final	6.0	6.0	5.0	5.0	6.0
Total	16.0	16.0	16.0	16.0	19.0

AUDITOR

PricewaterhouseCoopers have continued to act as auditors of the Company, and have undertaken the audit of the financial statements for the 29 July 2018 year.

DISCIPLINARY ACTION

The NZX has not taken any disciplinary action against the Company during the period under review.

DONATIONS

In accordance with section 211(1)(h) of the Companies Act 1993, the Company records that it donated $663,000 (2017: $634,000) to various charities during the year. In line with Board policy, no political contributions were made during the year.

NZX WAIVERS

Details of all waivers granted and published by NZX within or relied upon by the Company in the 12 months immediately preceding the date two months before the date of publication of this annual report are available on the Company's website *www.thewarehousegroup.co.nz*