

**INTERIM
REPORT
2016**



Moving in the right direction

What we said we'd do.

The past six months has seen evidence of the Group following through on its strategy and delivering on what we said we would do.

What we've achieved.

In this report we show you the positive strides our brands have made, new initiatives that are now on stream and the flow-on benefits of these, coupled with an upswing in retail activity for us, and New Zealanders in general.

**“We are well placed
to build on the
good performance
we've achieved.”**

Torpedo7



thewarehouse //
where everyone gets a bargain.

nl noel leeming

THE
WAREHOUSE
GROUP
FINANCIAL SERVICES

SALES OF
\$76.1
MILLION

18.5% SALES GROWTH
The Torpedo7 retail stores in particular had a very strong HY16 for sales.

SALES OF
\$137.8
MILLION

10.7% SALES GROWTH
The Blue Sheds are now recording 26 consecutive quarters of positive same-store sales growth.



SALES OF
\$973.1
MILLION

4.8% SALES GROWTH
The Red Sheds have now recorded 20 quarters of positive same-store sales growth.



SALES OF
\$379.8
MILLION

15.0% SALES GROWTH
Noel Leeming continues to increase market share in the highly competitive technology and appliances market.



OPERATING LOSS OF
\$2.7 MILLION
FOR H1 FY16

In line with expectations as part of the strategy to establish and build a leading retail financial services business.

Tracking our half year

Your Directors are pleased to present the unaudited results for the six months ended 31 January 2016.

The Warehouse Group has invested significantly over the past few years as part of our strategic transformation journey. This year is focused on consolidating and leveraging those investments to unlock profit growth. The half-year result is a positive sign that profit growth is now being realised, reversing the declines in recent years. Our new Group Chief Executive Officer, Nick Grayston, has recently joined the business and will share his vision for the strategic cycle upon the announcement of our full-year results.

The Board of the Warehouse Group (the Group) announced an 'Adjusted Net Profit After Tax result of \$45.6 million for the half year ended 31 January 2016 (HY16), just above the earnings guidance range announced in January 2016 after the Christmas trading period. This is up 22.3% compared to \$37.2 million for the same period last year (HY15). Reported Net Profit After Tax for the period was \$57.2 million compared to \$43.3 million in HY15. Group retail sales for the period were \$1,560.4 million, up 8.0% compared to HY15.

The strong performance that was reported in the second half of the 2015 financial year (FY15) has continued into the first half of this year, with all retail brands recording positive profit growth as a result of strong sales and effective cost management. The result is a significant improvement on the comparative period last year and has been achieved through a combination of a positive retail environment, and the effects of changes that we have made to the businesses, i.e. focus on improving our customer offer, margins and cost control. These changes are expected to continue to deliver benefits into the future.

Two additional factors impact how this first-half result compares to last year; first, there was a particularly difficult trading period last year, including a number of one-off costs that the business incurred as it rebranded Noel Leeming and Torpedo7. Second, there is a slight mismatch in the calendar ranges between the two first half years, which is the impact of the 53rd week that was reported in the previous financial year.

Reporting a 53-week trading period in FY15 has meant that the 26 weeks of the first half of FY16 commenced and ended a week later in the calendar than last year. The late finish to the first half in HY16 has resulted in some Back-to-School sales being reported in the first half year, when they would normally be in the second half year. Similarly, the comparability of some balance sheet accounts

have been impacted by the timing of the current half year balance date when compared to the previous half year.

To assist interpretation of our trading results, we have calculated a comparison which adjusts for this timing difference. On a realigned basis the overall sales growth for HY16 is \$103.2 million, up 7.1% on HY15.

Balance Sheet

To assist with the interpretation of our results, the Group has enhanced its balance sheet disclosure by showing separate Retail and Financial Services balance sheets. Now that the Financial Services business has achieved some scale, a consolidated balance sheet does not adequately show the different gearing and financing arrangements between the businesses.

Aside from that disclosure amendment, two elements have impacted the balance sheet in HY16. First, as mentioned above, the change in balance date as a consequence of the 53-week period last year has resulted in some volatility between working capital accounts. This is purely a cut-off issue and the movement year-on-year between accounts such as net debt and trade payables, as well as operating cash flows, is a result of this timing change. Second, two transactions impacted the accounts this half: the purchase of Westpac's shares in our Financial Services joint venture (The Warehouse Financial Services Limited) (the JV), and the sale of Pet.co.nz.

Previously in our financial statements the JV was equity accounted; this meant that we showed our investment in the JV as an asset, and reported our share of the JV's net profit as after-tax earnings. With 100% ownership, we bring onto the balance sheet the book of receivables (\$57.0 million) and a corresponding debt facility to fund them. In the future, earnings from that book will appear in the profit and loss account as separate income and expenditure lines.

ⁱ A reconciliation of adjusted net profit to reported net profit is detailed in note 13 of the interim financial statements. Certain transactions, such as profits from the disposal of properties and businesses, goodwill impairment and gains/costs associated with acquisition of subsidiaries, can make the comparisons of profits between periods difficult. The Group monitors adjusted net profit as a key indicator of performance and uses it as the basis for determining dividends and believes it helps investors to understand how the underlying business is performing.

The Warehouse

The Warehouse (Red Sheds) reported sales of \$973.1 million for HY16, an increase of 4.8% or \$44.4 million compared to the same period last year. Same-store sales increased by 4.6% in the half year. The Red Sheds have now recorded 20 quarters of positive same-store sales growth. On a like-for-like basis same-store sales increased by 4.0%. Operating profit for the half was \$65.5 million, an increase of \$11.4 million or 21.0% on HY15.

A number of new initiatives were delivered in the half year, the most significant being improvements in the product ranges for the Home and Apparel categories, with a particular focus on improving the everyday low price offer. These have been well received by customers and, coupled with a favourable overall retail environment, have driven positive margin improvement.

Other initiatives in the first half included the launch of Warehouse Mobile, and distribution of the new Warehouse Money credit cards.

Warehouse Stationery

Warehouse Stationery (Blue Sheds) reported sales of \$137.8 million for HY16, an increase of 10.7% on HY15 (\$124.4 million). Same-store sales increased by 8.5% in the half year, with the Blue Sheds now recording 26 consecutive quarters of positive same-store sales growth. On a like-for-like basis same-store sales increased by 4.0%. Operating profit of \$6.0 million increased by 25.5% over the same period last year in line with sales growth.

The timing of the reporting period has resulted in more of the Back-to-School trading results being reported for the Blue Sheds; however, this is expected to normalise over the full year. Despite that timing factor, the Back-to-School campaign has been strong with growth delivered across all key metrics.

Noel Leeming

Noel Leeming reported sales of \$379.8 million for HY16, a 15.0% increase on the same period last year. Same-store sales increased by 11.4% during the half year. On a like-for-like basis same-store sales increased by 11.1%. Noel Leeming continues to increase market share in the highly competitive technology and appliances market. Profit was significantly improved over HY15, through a combination of cycling a tough trading period and one-off rebranding costs with a stronger overall business performance across sales, margin and cost of doing business. Gross Profit margin was impacted by a change in mix, notably a standout sales performance around cellular, which has a comparatively lower margin than other products.

Torpedo7 Group

Torpedo7 Group reported sales of \$76.1 million for HY16, up 18.5% on HY15. The Torpedo7 retail stores, in particular, had a very strong HY16 for sales, with some margin being traded in the online channel as part of a strategy to re-engage the online customer base after a period of investing in store roll-outs.

Following the half-year balance date The Warehouse Group purchased the 20% residual shareholding, giving the Group 100% control of Torpedo7.

Financial Services

The Financial Services business reported an Operating loss of \$2.7 million for HY16, in line with expectations as part of the strategy to establish and build a leading retail financial services business. HY16 was a key period in the establishment of financial services for the Group, with the acquisition of Westpac's shares in The Warehouse Financial Services Limited Joint Venture, and the successful launch of Warehouse Money's two new Visa credit cards. A securitisation facility was established also, as part of the funding strategy to support growth of the asset book.

Online

Group online sales in New Zealand were \$90.0 million, up 20.4% compared to the same period last year (up 19.2% on a like-for-like basis). Strong sales through the Christmas trading period have driven this growth.

Outlook

In announcing the HY16 result, the outlook for the second half is expected to build on this positive start to the financial year. However, we recognise some of the challenges ahead; notably ongoing currency-driven input cost increases, the continued expected losses in the Financial Services business, and the fact that there is one week less in the trading period compared to last year.

Consequently, subject to any material change in anticipated trading conditions, the Directors expect the second-half profit to be in line with the second-half result last year. The expected Adjusted Net Profit After Tax for the full-year guidance is between \$61.0 million and \$64.0 million, which would represent a 7% to 12% profit growth year-on-year.

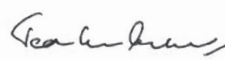
The full-year dividend is targeted to be 16 cents per share, comprising an interim dividend of 11 cents and a final dividend targeted to be 5 cents. This targeted 16 cents per share payout for FY16 is subject to no significant change in trading, to ensure we meet our obligations under our Bank and Bond covenants and are able to provide appropriate levels of funding for strategic initiatives.

Group CEO

The Board was pleased to welcome Nick Grayston to the role of Group Chief Executive Officer. After a handover period with our outgoing Chief Executive Mark Powell, Nick took the helm at the commencement of the second half. The Board acknowledges the strong foundation for the year's performance that Mark delivered in the first half, and is looking forward to entering the next phase of the Group's strategic journey under Nick's leadership, which we look to share at the full year.



Nick Grayston
Group Chief Executive Officer



Eduard (Ted) van Arkel
Chairman

Our group of brands, on track

The Warehouse Group

A strong first-half result with favourable trading conditions, coupled with improved margin and cost management, has contributed to our profit uplift. All retail businesses delivered sales and profit growth and have benefited from favourable currency hedging in the first half. This continues the momentum established in the second half of the last financial year and will enable the Group to deliver year-on-year profit growth for the full year. We have now recorded 20 consecutive quarters of same-store sales growth in the Red Sheds and 26 quarters of same-store sales in the Blue Sheds.

The comparative period last year was reasonably challenging with a poor trading environment and a number of one-off costs to be absorbed. This year, cost management and margin improvement have been important factors in converting the sales growth into profit leverage.

Our Financial Services business has achieved several important milestones and has grown its lending base to a book value of \$73.0 million, up from \$17.0 million last year.

Our online sales continue to grow at rates faster than the market, with Group online sales up 20.4% compared to last year.

In the immediate future, our focus is on driving sustainable profit growth across all businesses.

The Warehouse (Red Sheds)

Our 'House of Bargains', 'Home of Essentials' strategy is continuing to be well supported by customers, who have responded to the quality product and competitive price points we have delivered in stores. Everyday low prices, specifically in the Home and Apparel categories, has been a key driver in strengthening our brand and price positioning. In addition, our Leisure category continued to deliver strong growth through the sale of seasonal lines.

Our online platform and digital retail strategies are gaining in penetration, as evidenced by the increased uptake in Endless Aisles (the ability to shop across our whole range from any store) and Click and Collect (pick-up of online orders in store), both of which continue to provide customers with further shopping options and opportunities. Online sales have grown by more than 20% year-on-year in HY16.

We remain committed to investing in our people and their safety, as well as that of our customers, which is paramount. Our focus on health and safety was increased in the first half year, with

the continued embedding of our company-wide 'Take Time to Think' programme, launched to improve both our incident reporting rates and ultimately the number of incidents as root-cause issues are addressed.

In the period, the Kaitaia store was relocated (in conjunction with other Warehouse Group brands). A new store was opened in Auckland city (at the Atrium on Elliott Street), in advance of the planned closure of the Downtown store. We now have 93 Red Shed stores across the country.

Warehouse Stationery (Blue Sheds)

In the Blue Sheds we continue to concentrate on the Work, Study, Create, Connect strategy by further building brand engagement, improving customer understanding and promotional effectiveness, as well as through the development of greater digital capability. We have achieved positive sales and profit growth year-on-year in a competitive market, driven by a focus on trading, together with adding more personality and vibrancy to our promotional activity and delivering on strategic initiatives.

Examples of these initiatives include developing a solutions-based assortment of products and services that provides for all our customers' needs, such as the Fuji in-store digital creative solution, Faux Canvas and the exclusive Printicular App (a free app for iPhone and Android devices). This lets users easily print in a range of sizes suitable for Instagram, Facebook, Twitter, Flickr and Dropbox, directly from their phones, for local pick-up at one of our 66 Warehouse Stationery stores.

'Shop Your Way' is an ongoing focus on delivering a seamless digitally enhanced customer experience and we continue to foster a digital mind-set throughout our company by better leveraging of customer data.

We will continue to develop the capability and engagement of our teams at all levels, in conjunction with embedding our health and safety culture and strengthening our community and environment programmes.

Our store network has been expanded by the addition of one new store in Queenstown, taking the total to 66 Blue Sheds.

Noel Leeming Group

In Noel Leeming we take pride in being the leading authority in appliances, technology and services for retail and commercial customers. Our by-line is: Passionate Experts, End-to-end Service.

Service is at the centre of everything we do. Passionate experts and end-to-end service will continue to support our customers' needs while at the same time strengthen our market position. We will maintain our leadership position by ensuring that we are the first to market with in-demand new products and technology; for example, the forthcoming Samsung S7 launch or resolving a customer's more immediate problem like replacing their washing machine. We can help find the whiteware for their needs, be it one of the everyday known brands available in-store or something special at Lifestyle Appliances.

With new purchases, the Tech Solutions Promise to our customers is that 'We Will Get it Working or Your Money Back'. This is a statement that we are happy to stand by as we want to make sure our customers are completely happy with their new technology and, from our point of view, it ensures they are able to 'maximise' their purchase.

It is the same with our Open Learning centres in store: we invite customers to come in and meet our Learning Specialists to see how they can help customers to make the most of their new technology. We offer services both in store and at home.

Small to medium-sized businesses, as well as our commercial customers, are well catered for through Noel Leeming Commercial and MacLean Technology, where we continue to provide experienced Commercial Business Managers and specialist professional IT Services to New Zealand companies.

We will also maximise the customer experience by leading the market in new product displays and customer engagement - for example, connected health (Fitbits) and Fashtronics. Wearables and activity trackers are now giving customers the opportunity to personalise with accessories to innovate and encourage their workout experience. We will remain focused on boosting brand preferences by substantiating our authority positioning and continuing the story of 'Passionate Experts' to enable Kiwis to 'Maximise their Machines' on an ongoing basis.

During the period, we opened a new store in Kaitia and consolidated existing stores in Whangarei, Wellington and Riccarton.

Torpedo7 Group

Kiwis love the outdoors and related activities, be they elite athletes or weekend warriors. Torpedo7's 'See You Out There' call to action and the Torpedo7 house brand have performed very favourably over the summer period as customers appreciate the quality and durability of the products available, providing them with a great shopping experience and a trust in the purchasing decision. Our online and retail stores are working well, with investment shifting back towards maintaining online leadership in outdoor adventure sports after a period of investment in our core store network.

Competition for Shotgun Supplements remains strong; however, month-on-month improvement is being maintained as we target our house brand offerings over those of international brands.

"All retail businesses delivered sales and profit growth."

No.1 Fitness continues to build its multi-channel offering as we strive to be the number one recognised leading fitness retailer in New Zealand. Fitness is featuring more in people's lives as they attempt to maintain a good work/life balance and healthy well-being. Wearables as noted are fast becoming a 'must-have' to keep track of activity and health-related goals. We know that to stay ahead of the market we must develop a product assortment that provides customers with a comprehensive offering suited to a wide range of fitness activities.

'Here Today, Gone Tomorrow', our 1-Day daily deal website, is proof that customers love the opportunity to purchase one-off 'specials' at great prices. This has provided solid incremental revenue for the company, contributing positive earnings to our bottom line.

We will continue to embed the brand personality and positioning going forward to create a seamless customer experience at every touch point and to build our customer engagement.

The Warehouse Financial Services

The Warehouse acquired Westpac's 51% shareholding of our joint venture financial services partnership on 30 September 2015. This is great news for our loyal cardholders, who will (over the course of the second half of our financial year) be transferred into our new Visa card products, which will provide additional benefits now and in the future.

Operationally, the launch of our new Warehouse Money products has been smooth with a positive response from customers. Our focus is on building market share and enhancing the value proposition of our products and services. In addition to the credit cards that have unique point-of-sale discounts, we also have a range of competitively priced insurance products in our portfolio.

Interim Financial Statements

for the 26 weeks
ended 31 January 2016

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Consolidated Income Statements

	NOTE	UNAUDITED 26 WEEKS ENDED 31 JANUARY 2016	UNAUDITED 26 WEEKS ENDED 25 JANUARY 2015	AUDITED 53 WEEKS ENDED 2 AUGUST 2015
		\$000	\$000	\$000
Retail sales	3	1,560,449	1,444,711	2,770,421
Finance business revenue		8,080	2,601	5,617
Total revenue		1,568,529	1,447,312	2,776,038
Cost of retail goods sold		(1,047,617)	(971,407)	(1,854,669)
Other income		5,142	4,539	8,268
Employee expenses		(248,970)	(225,473)	(449,887)
Lease and occupancy expenses		(74,504)	(71,748)	(147,192)
Depreciation and amortisation expenses	3	(29,674)	(27,858)	(58,634)
Other operating expenses		(99,789)	(98,375)	(182,491)
Operating profit	3	73,117	56,990	91,433
Gain on disposal of property	4	5,391	5,021	5,533
Gain on business disposals	17	9,950	-	-
Contingent consideration		675	23	(977)
Direct costs relating to acquisitions	15	(479)	-	-
Goodwill impairment		-	-	(11,302)
Equity earnings of associate	14	723	1,350	2,802
Earnings before interest and tax		89,377	63,384	87,489
Net interest expense		(9,402)	(7,676)	(16,207)
Profit before tax		79,975	55,708	71,282
Income tax expense		(18,881)	(12,792)	(20,345)
Net profit for the period		61,094	42,916	50,937
Attributable to:				
Shareholders of the parent		57,201	43,280	52,433
Minority interests		3,893	(364)	(1,496)
		61,094	42,916	50,937
Basic earnings per share		16.6 cents	12.5 cents	15.2 cents
Diluted earnings per share		16.5 cents	12.4 cents	15.1 cents

Consolidated Statements of Comprehensive Income

	UNAUDITED 26 WEEKS ENDED 31 JANUARY 2016	UNAUDITED 26 WEEKS ENDED 25 JANUARY 2015	AUDITED 53 WEEKS ENDED 2 AUGUST 2015
	\$000	\$000	\$000
Net profit for the period	61,094	42,916	50,937
Items that may be reclassified subsequently to the Income Statement			
Movement in cash flow hedge reserve net of tax	(22,260)	19,342	29,331
Total comprehensive income for the period	38,834	62,258	80,268
Attributable to:			
Shareholders of the parent	34,941	62,622	81,764
Minority interest	3,893	(364)	(1,496)
Total comprehensive income	38,834	62,258	80,268

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

Consolidated Statements of Changes in Equity

(UNAUDITED)	SHARE CAPITAL	TREASURY STOCK	CASH FLOW HEDGE RESERVES	EMPLOYEE SHARE BENEFITS RESERVE	RETAINED EARNINGS	MINORITY INTEREST	TOTAL EQUITY
	\$000	\$000	\$000	\$000	\$000	\$000	\$000
For the 26 weeks ended 31 January 2016							
Balance at the beginning of the period	365,517	(7,302)	23,551	2,937	157,154	2,425	544,282
Profit for the half year	-	-	-	-	57,201	3,893	61,094
Net change in fair value of cash flow hedges	-	-	(22,477)	-	-	-	(22,477)
Net change in value of de-designated hedges	-	-	217	-	-	-	217
	-	-	(22,260)	-	57,201	3,893	38,834
Share rights charged to the Income Statement	-	-	-	1,876	-	-	1,876
Share rights exercised	-	1,789	-	(2,311)	522	-	-
Dividends paid	-	-	-	-	(17,342)	(142)	(17,484)
Treasury stock dividends received	-	-	-	-	89	-	89
Purchase of treasury stock	-	(1,127)	-	-	-	-	(1,127)
Balance at the end of the period	365,517	(6,640)	1,291	2,502	197,624	6,176	566,470
For the 26 weeks ended 25 January 2015							
Balance at the beginning of the period	365,517	(8,707)	(5,780)	3,709	164,861	4,317	523,917
Profit for the half year	-	-	-	-	43,280	(364)	42,916
Net change in fair value of cash flow hedges	-	-	19,342	-	-	-	19,342
Total comprehensive income	-	-	19,342	-	43,280	(364)	62,258
Share rights charged to the Income Statement	-	-	-	1,448	-	-	1,448
Share rights exercised	-	4,250	-	(2,113)	(2,137)	-	-
Dividends paid	-	-	-	-	(20,811)	(199)	(21,010)
Treasury stock dividends received	-	-	-	-	65	-	65
Purchase of treasury stock	-	(50)	-	-	-	-	(50)
Balance at the end of the period	365,517	(4,507)	13,562	3,044	185,258	3,754	566,628
For the 53 weeks ended 2 August 2015							
Balance at the beginning of the period	365,517	(8,707)	(5,780)	3,709	164,861	4,317	523,917
Profit for the year	-	-	-	-	52,433	(1,496)	50,937
Net change in fair value of cash flow hedges	-	-	31,220	-	-	-	31,220
Net change in value of de-designated hedges	-	-	(1,889)	-	-	-	(1,889)
Total comprehensive income	-	-	29,331	-	52,433	(1,496)	80,268
Contributions by and distributions to owners:							-
Share rights charged to the Income Statement	-	-	-	2,114	-	-	2,114
Share rights exercised	-	4,250	-	(2,886)	(1,364)	-	-
Dividends paid	-	-	-	-	(58,964)	(396)	(59,360)
Treasury stock dividends received	-	-	-	-	188	-	188
Purchase of treasury stock	-	(2,845)	-	-	-	-	(2,845)
Balance at the end of the period	365,517	(7,302)	23,551	2,937	157,154	2,425	544,282

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

Balance Sheets

NOTE	CONSOLIDATED			RETAIL GROUP			FINANCIAL SERVICES			
	UNAUDITED AS AT 31 JANUARY 2016	UNAUDITED AS AT 25 JANUARY 2015	AUDITED AS AT 2 AUGUST 2015	UNAUDITED AS AT 31 JANUARY 2016	UNAUDITED AS AT 25 JANUARY 2015	AUDITED AS AT 2 AUGUST 2015	UNAUDITED AS AT 31 JANUARY 2016	UNAUDITED AS AT 25 JANUARY 2015	AUDITED AS AT 2 AUGUST 2015	
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	
ASSETS										
Current assets										
Cash and cash equivalents	8	43,737	28,251	32,195	39,098	28,568	28,327	4,639	-	3,868
Finance business receivables		73,496	17,022	14,228	-	-	-	73,496	17,022	14,228
Trade and other receivables	6	88,670	83,547	72,133	85,587	83,394	71,550	3,083	153	583
Available-for-sale property	4	7,394	-	-	7,394	-	-	-	-	-
Inventories		534,972	545,905	510,461	534,972	545,905	510,461	-	-	-
Derivative financial instruments	9	9,067	24,023	39,127	9,067	24,023	39,127	-	-	-
Taxation receivable		-	3,942	2,250	-	2,661	803	3,213	1,281	1,447
Total current assets		757,336	702,690	670,394	676,118	684,551	650,268	84,431	18,456	20,126
Non-current assets										
Property, plant and equipment	4	335,938	341,784	355,095	334,776	341,661	353,879	1,162	123	1,216
Intangible assets	5	162,637	148,962	147,432	118,437	130,173	120,482	44,200	18,789	26,950
Investments	14	-	1,326	2,778	-	1,326	2,778	-	-	-
Investment in finance business		-	-	-	66,810	34,703	45,527	-	-	-
Derivative financial instruments	9	296	-	164	296	-	164	-	-	-
Deferred taxation		37,933	26,695	22,935	35,390	24,535	20,692	2,543	2,160	2,243
Total non-current assets		536,804	518,767	528,404	555,709	532,398	543,522	47,905	21,072	30,409
Total assets		1,294,140	1,221,457	1,198,798	1,231,827	1,216,949	1,193,790	132,336	39,528	50,535
LIABILITIES										
Current liabilities										
Bank overdraft		-	-	-	-	-	-	-	317	-
Borrowings	8	123,751	101,528	117,164	123,751	101,510	117,164	-	18	-
Trade and other payables	11	274,992	406,718	256,499	268,717	402,584	252,113	6,275	4,134	4,386
Derivative financial instruments	9	1,871	-	51	1,871	-	51	-	-	-
Taxation payable		4,758	-	-	7,971	-	-	-	-	-
Provisions	7	53,677	42,194	44,423	52,911	41,838	43,801	766	356	622
Total current liabilities		459,049	550,440	418,137	455,221	545,932	413,129	7,041	4,825	5,008
Non-current liabilities										
Borrowings	8	189,372	81,343	214,604	189,372	81,343	214,604	-	-	-
Securitised borrowings	8	58,485	-	-	-	-	-	58,485	-	-
Derivative financial instruments	9	3,261	5,022	3,882	3,261	5,022	3,882	-	-	-
Trade and other payables	11	-	1,750	1,000	-	1,750	1,000	-	-	-
Provisions	7	17,503	16,274	16,893	17,503	16,274	16,893	-	-	-
Total non-current liabilities		268,621	104,389	236,379	210,136	104,389	236,379	58,485	-	-
Total liabilities		727,670	654,829	654,516	665,357	650,321	649,508	65,526	4,825	5,008
Net assets		566,470	566,628	544,282	566,470	566,628	544,282	66,810	34,703	45,527
EQUITY										
Contributed equity		358,877	361,010	358,215	358,877	361,010	358,215	-	-	-
Reserves		3,793	16,606	26,488	3,793	16,606	26,488	-	-	-
Retained earnings		197,624	185,258	157,154	197,624	185,258	157,154	-	-	-
Investment in finance business		-	-	-	-	-	-	66,810	34,703	45,527
Total equity attributable to shareholders		560,294	562,874	541,857	560,294	562,874	541,857	66,810	34,703	45,527
Minority interest		6,176	3,754	2,425	6,176	3,754	2,425	-	-	-
Total equity		566,470	566,628	544,282	566,470	566,628	544,282	66,810	34,703	45,527
Net assets per share (cents)		164.2	164.2	157.9						

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

Consolidated Statements of Cash Flows

NOTE	UNAUDITED 26 WEEKS ENDED 31 JANUARY 2016 \$000	UNAUDITED 26 WEEKS ENDED 25 JANUARY 2015 \$000	AUDITED 53 WEEKS ENDED 2 AUGUST 2015 \$000
Cash flows from operating activities			
	1,563,921	1,440,607	2,774,126
	66	76	138
	(1,464,313)	(1,291,650)	(2,665,960)
	(18,264)	(16,712)	(22,398)
	(8,875)	(7,820)	(18,662)
	72,535	124,501	67,244
	76,247	45,308	88,395
	(72,952)	(41,124)	(79,170)
	75,830	128,685	76,469
Cash flows from investing activities			
	14,204	18,982	31,120
14	2,695	5,565	5,565
	(37,355)	(58,026)	(109,345)
	(1,575)	(7,913)	(20,043)
15	(4,363)	-	-
	3	177	299
	(26,391)	(41,215)	(92,404)
Cash flows from financing activities			
	6,665	(3,410)	112,395
	-	-	22,811
	(144)	-	-
	(25,000)	(60,737)	(50,000)
	(764)	(718)	(1,440)
	(1,127)	-	(2,754)
	89	65	188
	(17,474)	(20,978)	(59,432)
	(142)	(199)	(396)
	(37,897)	(85,977)	21,372
	11,542	1,493	5,437
	32,195	26,758	26,758
	43,737	28,251	32,195

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

Reconciliation of Operating Cash Flows

	NOTE	UNAUDITED 26 WEEKS ENDED 31 JANUARY 2016	UNAUDITED 26 WEEKS ENDED 25 JANUARY 2015	AUDITED 53 WEEKS ENDED 2 AUGUST 2015
		\$000	\$000	\$000
Profit after tax		61,094	42,916	50,937
Non-cash items				
Depreciation and amortisation expenses		29,674	27,858	58,634
Goodwill impairment		-	-	11,302
Share-based payment expense		1,876	1,448	2,114
Interest capitalisation		321	(61)	235
Movement in deferred tax		(5,626)	(3,372)	(4,230)
Movement in de-designated derivative hedges		217	-	(1,889)
Share of surplus retained by associate		(723)	(1,350)	(2,802)
Total non-cash items		25,739	24,523	63,364
Items classified as investing or financing activities				
Net gain on sale of property, plant and equipment		(5,010)	(4,774)	(4,842)
Gain on business disposal	17	(9,950)	-	-
Direct costs relating to acquisitions	15	479	-	-
Contingent consideration		(675)	(23)	977
Supplementary dividend tax credit		132	167	468
Total investing and financing adjustments		(15,024)	(4,630)	(3,397)
Changes in assets and liabilities				
Trade and other receivables		(7,880)	(16,772)	(10,290)
Finance business receivables		(2,258)	2,014	4,808
Inventories		(25,408)	(53,796)	(18,352)
Trade and other payables		23,486	141,395	(8,176)
Provisions		9,887	(6,249)	(3,401)
Income tax		6,194	(716)	976
Total changes in assets and liabilities		4,021	65,876	(34,435)
Net cash flows from operating activities		75,830	128,685	76,469

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

Notes to the Financial Statements

1. GENERAL INFORMATION

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

The Warehouse Group Limited is a limited liability company incorporated and domiciled in New Zealand and registered under the New Zealand Companies Act 1993. The address of its registered office is Level 8, 120 Albert Street, PO Box 2219, Auckland. The Group is listed on the New Zealand Stock Exchange.

The interim financial statements of the Group have been prepared in accordance with the requirements of the Financial Reporting Act 2013, the Companies Act 1993 and the New Zealand Stock Exchange (NZX). The Warehouse Group Limited is registered under the Companies Act 1993 and is an FMC Reporting Entity under Part 7 of the Financial Markets Conduct Act 2013.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The interim financial statements of the Group have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP). They comply with NZ IAS 34 Interim Financial Reporting and IAS 34 Interim Financial Reporting and, consequently, do not include all the information required for full financial statements. These Group interim financial statements should be read in conjunction with the annual report for the year ended 2 August 2015.

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

The accounting policies that materially affect the measurement of the interim financial statements have been applied on a consistent basis with those used in the audited financial statements for the 53 weeks ended 2 August 2015 and the unaudited interim financial statements for the 26 weeks ended 25 January 2015.

While there have been no changes in accounting policies applied by the Group during the current half-year period the release of the new NZ IFRS 16 'Lease' accounting standard in January 2016 will have a significant impact on the Group's presentation of its financial performance and position and those of other retailers in the future.

NZ IFRS 16: Leases (effective for the Group in the 2020 Financial Year)

NZ IFRS 16, 'Leases', replaces the current guidance in NZ IAS 17. Under NZ IAS 17, a lessee is required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). NZ IFRS 16 does not make any distinction between operating and finance leases and 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 standard is effective for the Group's 2020 financial year. The Group does not intend to adopt NZ IFRS 16 until its effective date and has yet to assess its full impact. In anticipation of this new accounting standard, in April 2015 the Group changed its borrowing covenants to carve out the effect of the new accounting standard from the calculation of the Group's debt covenants.

Seasonality

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

Approval of Financial Statements

These consolidated interim financial statements were approved for issue by the Board of Directors on 10 March 2016. Unless as otherwise stated, the financial statements have been reviewed by our Auditors, but are not audited.

3. SEGMENT INFORMATION

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

The Warehouse

The Warehouse is predominantly a general merchandise and apparel retailer, with 93 stores located throughout New Zealand.

Warehouse Stationery

Warehouse Stationery is a stationery retailer, with 66 stores located throughout New Zealand.

Noel Leeming

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

Torpedo7

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

Finance Business

The Financial Services Group is a credit card business offering credit to customers through various branded credit cards. In September 2015 the Group gained control over The Warehouse Financial Services Limited (TWFS) when it acquired 100% of the company's share capital and significantly increased the scale of this business (refer note 15).

Other Group operations

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

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

3. SEGMENT INFORMATION (CONTINUED)

	REVENUE			OPERATING PROFIT		
	UNAUDITED 26 WEEKS ENDED 31 JANUARY 2016	UNAUDITED 26 WEEKS ENDED 25 JANUARY 2015	AUDITED 53 WEEKS ENDED 2 AUGUST 2015	UNAUDITED 26 WEEKS ENDED 31 JANUARY 2016	UNAUDITED 26 WEEKS ENDED 25 JANUARY 2015	AUDITED 53 WEEKS ENDED 2 AUGUST 2015
	\$000	\$000	\$000	\$000	\$000	\$000
SEGMENT PERFORMANCE						
The Warehouse	973,081	928,699	1,718,307	65,486	54,105	79,600
Warehouse Stationery	137,789	124,415	262,780	6,009	4,787	12,723
Noel Leeming	379,844	330,404	665,628	6,390	2,344	6,424
Torpedo7	76,126	64,247	131,231	1,712	(227)	34
Other Group operations	10,114	8,729	9,276	(3,801)	(2,615)	(5,555)
Inter-segment eliminations	(16,505)	(11,783)	(16,801)	-	-	-
Retail Group	1,560,449	1,444,711	2,770,421	75,796	58,394	93,226
Financial Services Group	8,080	2,601	5,617	(2,679)	(1,404)	(1,793)
	1,568,529	1,447,312	2,776,038	73,117	56,990	91,433
Unallocated revenue/(expenses)						
Gain on disposal of property				5,391	5,021	5,533
Gain on business disposals				9,950	-	-
Contingent consideration				675	23	(977)
Direct costs relating to acquisitions				(479)	-	-
Goodwill impairment (Torpedo7)				-	-	(11,302)
Equity earnings of associate				723	1,350	2,802
Earnings before interest and tax				89,377	63,384	87,489
Net interest expense				(9,402)	(7,676)	(16,207)
Net profit before taxation for the period				79,975	55,708	71,282
Attributable to:						
Retail Group				84,186	57,689	74,159
Finance business				(4,211)	(1,981)	(2,877)
Net profit before taxation for the period				79,975	55,708	71,282
Operating margin						
The Warehouse (%)				6.7	5.8	4.6
Warehouse Stationery (%)				4.4	3.8	4.8
Noel Leeming (%)				1.7	0.7	1.0
Torpedo7 (%)				2.2	(0.4)	0.0
Total Retail Group (%)				4.9	4.0	3.4

	DEPRECIATION & AMORTISATION			CAPITAL EXPENDITURE		
	UNAUDITED 26 WEEKS ENDED 31 JANUARY 2016	UNAUDITED 26 WEEKS ENDED 25 JANUARY 2015	AUDITED 53 WEEKS ENDED 2 AUGUST 2015	UNAUDITED 26 WEEKS ENDED 31 JANUARY 2016	UNAUDITED 26 WEEKS ENDED 25 JANUARY 2015	AUDITED 53 WEEKS ENDED 2 AUGUST 2015
	\$000	\$000	\$000	\$000	\$000	\$000
The Warehouse	20,612	19,811	41,072	16,730	19,995	35,844
Warehouse Stationery	3,206	3,139	6,713	2,491	3,831	6,739
Noel Leeming	3,567	2,894	6,342	2,578	8,129	13,152
Torpedo7	627	635	1,286	332	3,236	3,866
Other Group operations	1,055	989	2,357	5,566	12,027	43,816
Retail Group	29,067	27,468	57,770	27,697	47,218	103,417
Finance business	607	390	864	6,102	5,098	14,827
	4	29,674	27,858	58,634	52,316	118,244

Notes to the Financial Statements – continued

3. SEGMENT INFORMATION (CONTINUED)

	NOTE	TOTAL ASSETS			TOTAL LIABILITIES		
		UNAUDITED AS AT 31 JANUARY 2016	UNAUDITED AS AT 25 JANUARY 2015	AUDITED AS AT 2 AUGUST 2015	UNAUDITED AS AT 31 JANUARY 2016	UNAUDITED AS AT 25 JANUARY 2015	AUDITED AS AT 2 AUGUST 2015
		\$000	\$000	\$000	\$000	\$000	\$000
The Warehouse		494,939	523,152	491,532	188,189	246,298	165,841
Warehouse Stationery		89,316	94,772	83,298	37,748	42,850	32,742
Noel Leeming		164,467	154,347	152,841	92,249	142,474	92,682
Torpedo7		53,161	52,307	50,804	11,861	26,897	14,843
Other Group operations		176,956	160,449	173,093	9,084	3,926	7,699
Retail Group		978,839	985,027	951,568	339,131	462,445	313,807
Finance business		99,227	25,073	31,963	7,041	4,491	5,008
Operating assets/liabilities		1,078,066	1,010,100	983,531	346,172	466,936	318,815
Unallocated assets/liabilities							
Cash and borrowings	8	43,737	28,251	32,195	371,608	182,871	331,768
Derivative financial instruments	9	9,363	24,023	39,291	5,132	5,022	3,933
Investments	14	-	1,326	2,778	-	-	-
Intangible Goodwill and Brands	5	125,041	127,120	115,818	-	-	-
Taxation		37,933	30,637	25,185	4,758	-	-
Total		1,294,140	1,221,457	1,198,798	727,670	654,829	654,516

4. PROPERTY, PLANT, EQUIPMENT AND COMPUTER SOFTWARE

	NOTE	UNAUDITED AS AT 31 JANUARY 2016	UNAUDITED AS AT 25 JANUARY 2015	AUDITED AS AT 2 AUGUST 2015
		\$000	\$000	\$000
Available-for-sale property		7,394	-	-
Property, plant and equipment		335,938	341,784	355,095
Computer software	5	37,596	21,842	31,614
Net book value		380,928	363,626	386,709
Movement in property, plant, equipment and software				
Balance at the beginning of the period		386,709	353,376	353,376
Disposal of business	17	(706)	-	-
Capital expenditure	3	33,799	52,316	118,244
Depreciation and amortisation	3	(29,674)	(27,858)	(58,634)
Disposals		(9,200)	(14,208)	(26,277)
Balance at the end of the period		380,928	363,626	386,709

Property Sales

During the current half year the Group sold two store properties, the first located in South Dunedin and a parcel of land located in Timaru, for a combined net consideration of \$14.132 million realising a pre-tax profit of \$5.391 million.

During the first half of the comparative year the Group sold a store in Whangarei and in the second half year a store in Gisborne; together, the sale of these two properties realised a pre-tax profit of \$5.533 million (H1 2015: \$5.021 million).

Available-for-sale property

The Group's store property at Kaitaia has been classified as available for sale at balance date. The sale of this property was almost complete at balance date, subject to satisfying a few pre-sale conditions which are required before title is transferred and consideration received. It is anticipated that this sale will be completed by the end of March 2016.

5. INTANGIBLE ASSETS

	NOTE	UNAUDITED AS AT 31 JANUARY 2016	UNAUDITED AS AT 25 JANUARY 2015	AUDITED AS AT 2 AUGUST 2015
		\$000	\$000	\$000
Computer software	4	37,596	21,842	31,614
Brands		23,523	23,523	23,523
Goodwill		101,518	103,597	92,295
Net book value		162,637	148,962	147,432
Movement in Goodwill				
Balance at the beginning of the period		92,295	103,597	103,597
Goodwill impairment		-	-	(11,302)
Disposal of business – Goodwill	17	(2,477)	-	-
Acquisition of businesses – Goodwill	15	11,700	-	-
Balance at the end of the period		101,518	103,597	92,295

The Group performs a detailed impairment assessment annually of the Group's intangible assets and considers if there has been any indicators of impairment at each interim reporting date. The Group's interim review did not identify any meaningful indicators of impairment in any of the Group's significant Cash Generating Units which would require an impairment charge.

6. TRADE AND OTHER RECEIVABLES

	NOTE	UNAUDITED AS AT 31 JANUARY 2016	UNAUDITED AS AT 25 JANUARY 2015	AUDITED AS AT 2 AUGUST 2015
		\$000	\$000	\$000
Trade receivables		49,380	48,509	44,139
Allowance for impairment		(1,527)	(1,346)	(1,488)
		47,853	47,163	42,651
Other debtors and prepayments		32,406	31,884	29,482
Landlord advances		-	4,500	-
Business disposal proceeds receivable	17	8,411	-	-
		88,670	83,547	72,133

7. PROVISIONS

	NOTE	UNAUDITED AS AT 31 JANUARY 2016	UNAUDITED AS AT 25 JANUARY 2015	AUDITED AS AT 2 AUGUST 2015
		\$000	\$000	\$000
Current liabilities		53,677	42,194	44,423
Non-current liabilities		17,503	16,274	16,893
		71,180	58,468	61,316
Provisions consist of:				
Performance-based compensation		13,562	2,836	5,221
Annual leave		29,984	29,093	29,136
Long-service leave		7,405	7,439	7,394
Other employee benefits		7,386	6,408	7,384
Employee benefits		58,337	45,776	49,135
Make-good provision		7,279	6,428	6,745
Sales returns provision		4,171	3,974	3,580
Onerous lease		1,393	2,290	1,856
		71,180	58,468	61,316

	MAKE GOOD			ONEROUS LEASE		
	UNAUDITED 26 WEEKS ENDED 31 JANUARY 2016	UNAUDITED 26 WEEKS ENDED 25 JANUARY 2015	AUDITED 53 WEEKS ENDED 2 AUGUST 2015	UNAUDITED 26 WEEKS ENDED 31 JANUARY 2016	UNAUDITED 26 WEEKS ENDED 25 JANUARY 2015	AUDITED 53 WEEKS ENDED 2 AUGUST 2015
	\$000	\$000	\$000	\$000		
Opening balance	6,745	6,207	6,207	1,856	4,920	4,920
Arising/(released) during the period	1,145	761	1,786	89	(932)	(679)
Net settlements	(611)	(540)	(1,248)	(552)	(1,698)	(2,385)
Closing balance	7,279	6,428	6,745	1,393	2,290	1,856

Notes to the Financial Statements – continued

8. DEBT

	NOTE	UNAUDITED AS AT 31 JANUARY 2016	UNAUDITED AS AT 25 JANUARY 2015	AUDITED AS AT 2 AUGUST 2015
		\$000	\$000	\$000
Cash on hand and at bank		43,737	28,251	32,195
Bank borrowings		122,470	–	115,805
Lease liabilities		1,281	1,451	1,359
Fixed rate senior bond (coupon: 7.37%)		–	100,000	–
Fair value adjustment relating to effective interest		–	197	–
Unamortised capitalised costs on senior bond		–	(120)	–
Current borrowings		123,751	101,528	117,164
Bank borrowings		65,000	79,263	90,000
Lease liabilities		988	2,080	1,571
Fixed rate senior bond (coupon: 5.30%)		125,000	–	125,000
Fair value adjustment relating to effective interest		296	–	163
Unamortised capitalised costs on senior bond		(1,912)	–	(2,130)
Non-current borrowings		189,372	81,343	214,604
Non-current securitised borrowings	16	58,485	–	–
Total borrowings		371,608	182,871	331,768
Net debt		327,871	154,620	299,573
Committed bank credit facilities at balance date are:				
Bank debt facilities		340,000	300,000	330,000
Bank facilities used		(187,470)	(79,263)	(205,805)
Unused bank debt facilities		152,530	220,737	124,195
Securitised debt facility		225,000	–	–
Securitised facility used		(58,485)	–	–
Unused securitised debt facility		166,515	–	–
Letter of credit facilities		28,000	28,000	28,000
Letters of credit		(11,295)	(5,941)	(21,145)
Unused letter of credit facilities		16,705	22,059	6,855
Total unused bank facilities		335,750	242,796	131,050

9. DERIVATIVE FINANCIAL INSTRUMENTS

	UNAUDITED AS AT 31 JANUARY 2016	UNAUDITED AS AT 25 JANUARY 2015	AUDITED AS AT 2 AUGUST 2015
	\$000	\$000	\$000
Current assets	9,067	24,023	39,127
Non-current assets	296	–	164
Current liabilities	(1,871)	–	(51)
Non-current liabilities	(3,261)	(5,022)	(3,882)
	4,231	19,001	35,358
Derivative financial instruments consist of:			
Current assets	9,067	23,767	39,127
Current liabilities	(1,002)	–	(51)
Foreign exchange contracts	8,065	23,767	39,076
Current assets	–	256	–
Current liabilities	(869)	–	–
Non-current assets	296	–	164
Non-current liabilities	(3,261)	(5,022)	(3,882)
Interest rate swaps	(3,834)	(4,766)	(3,718)
	4,231	19,001	35,358

The Group continues to manage its foreign exchange and interest rate risks in accordance with the policies and parameters detailed in the 2015 Annual Report.

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

	UNAUDITED AS AT 31 JANUARY 2016	UNAUDITED AS AT 25 JANUARY 2015	AUDITED AS AT 2 AUGUST 2015
US dollar forward contracts – cash flow hedges			
Notional amount (NZ\$000)	316,560	233,051	275,304
Average contract rate (\$)	0.6582	0.8117	0.7462
Spot rate used to determine fair value (\$)	0.6476	0.7467	0.6586

	UNAUDITED AS AT 31 JANUARY 2016	UNAUDITED AS AT 25 JANUARY 2015	AUDITED AS AT 2 AUGUST 2015
	\$000	\$000	\$000
Cash flow hedges	(4,130)	(5,022)	(3,882)
Fair value hedges	296	256	164
Interest rate swaps	(3,834)	(4,766)	(3,718)

Interest rate swaps – cash flow hedge

In order to protect against interest rate volatility the Group has interest rate swap contracts which have a right to receive interest at variable rates and to pay interest at fixed rates. The interest rate swaps currently have terms of up to 8.5 years and provide a hedge against a notional principal of \$50.000 million of the Group's core variable interest bank borrowings. The Group has also entered forward-start interest rate swap contracts with a notional principal of \$55.000 million to provide a partial hedge against the rollover of the Group's fixed rate senior bond when it matures in June 2015.

Interest rate swaps – fair value hedge

At balance date the Group held interest rate swaps where it receives a fixed rate of interest and pays a variable rate on a notional amount of \$40.000 million. The interest rate swaps are designated as fair value hedges and transform a series of known future fixed interest cash flows on the fixed rate senior bond to variable interest cash flows.

Notes to the Financial Statements – continued

10. FAIR VALUE MEASUREMENT

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

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

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

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

ASSET/(LIABILITY)	NOTE	UNAUDITED AS AT 31 JANUARY 2016	UNAUDITED AS AT 25 JANUARY 2015	AUDITED AS AT 2 AUGUST 2015
		\$000	\$000	\$000
Derivatives used for hedging				
Foreign exchange contracts	(Level 2) 9	8,065	23,767	39,076
Interest rate swaps	(Level 2) 9	(3,834)	(4,766)	(3,718)
Senior bond fair value adjustment relating to effective interest	(Level 2) 8	(296)	(197)	(163)

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

Specific valuation techniques used to value financial instruments are:

- Forward exchange contracts determined using forward exchange market rates at the balance date (refer note 9).
- Interest rate swaps calculated as the present value of the estimated future cash flows based on the applicable market interest yield rates at balance date.

Except for the Group's fixed rate senior bond (refer note 8) and derivatives (detailed above), the carrying value of the Group's financial assets and liabilities approximate fair value. The fixed rate senior bond is listed on the NZX and measured at amortised cost. The fair value of fixed rate senior bonds at balance date, based on the last price traded on the New Zealand Stock Exchange (level 1 valuation), were as follows.

	UNAUDITED AS AT 31 JANUARY 2016	UNAUDITED AS AT 25 JANUARY 2015	AUDITED AS AT 2 AUGUST 2015
FIXED RATE SENIOR BOND			
Face value (\$000)	125,000	100,000	125,000
Coupon (%)	5.30	7.37	5.30
Market yield (%)	4.30	5.35	4.45
Maturity	June 2020	June 2015	June 2020
NZX quoted closing price (\$)	1.04659	1.01629	1.04411
Fair value (\$000)	130,824	101,629	130,514

11. TRADE AND OTHER PAYABLES

	UNAUDITED AS AT 31 JANUARY 2016	UNAUDITED AS AT 25 JANUARY 2015	AUDITED AS AT 2 AUGUST 2015
	\$000	\$000	\$000
Trade creditors	215,036	316,387	189,512
Goods in transit creditors	14,728	18,293	16,522
Goods and services tax	10,679	28,673	11,208
Capital expenditure creditors	7,634	1,056	11,165
Unearned income (includes laybys, gift vouchers and Christmas Club deposits)	16,284	15,887	16,508
Contingent and deferred consideration	1,000	14,380	3,250
Interest accruals	1,698	1,266	1,426
Payroll accruals	7,933	12,526	7,908
	274,992	408,468	257,499
Less: Non-current contingent and deferred consideration	-	(1,750)	(1,000)
Current trade and other payables	274,992	406,718	256,499

12. COMMITMENTS

	UNAUDITED AS AT 31 JANUARY 2016	UNAUDITED AS AT 25 JANUARY 2015	AUDITED AS AT 2 AUGUST 2015
	\$000	\$000	\$000
(a) Capital commitments			
Capital expenditure contracted for at balance date but not recognised as liabilities is set out below:			
Within one year	7,677	26,214	9,957
(b) Operating lease commitments			
Commitments for minimum lease payments in relation to non-cancellable operating leases at balance date are as follows:			
Future minimum rentals payable			
0-1 years	114,876	104,172	111,406
1-2 years	104,932	90,351	103,687
2-5 years	240,923	210,751	239,656
5+ years	291,407	280,378	298,809
	752,138	685,652	753,558

13. ADJUSTED NET PROFIT RECONCILIATION

	NOTE	UNAUDITED 26 WEEKS ENDED 31 JANUARY 2016	UNAUDITED 26 WEEKS ENDED 25 JANUARY 2015	AUDITED 53 WEEKS ENDED 2 AUGUST 2015
		\$000	\$000	\$000
Net profit attributable to shareholders of the parent		57,201	43,280	52,433
Less: Unusual items				
Gain on business disposals	17	9,950	-	-
Direct costs relating to acquisitions	15	(479)	-	-
Goodwill impairment (Torpedo7)		-	-	(11,302)
Contingent consideration		675	23	(977)
Gain on disposal of property	4	5,391	5,021	5,533
		15,537	5,044	(6,746)
Income tax relating to unusual items		(1,509)	(1,406)	(1,549)
Income tax expense related to depreciation recovered on building disposals		1,234	2,405	2,490
		15,262	6,043	(5,805)
Add back minority interests	17	(3,614)	-	1,104
Adjusted net profit		45,553	37,237	57,134

Certain transactions can make the comparisons of profits between periods difficult. The Group monitors adjusted net profit as a key indicator of performance and uses it as the basis for determining dividends and believes it helps improve the understanding of underlying business performance.

Adjusted net profit makes allowance for the after-tax effect of unusual items. Unusual items include profits from the disposal of properties and businesses, goodwill impairment, direct costs relating to the acquisition of subsidiaries and changes in the value of contingent consideration recognised in the Income Statement.

Notes to the Financial Statements – continued

14. INVESTMENT

	NOTE	UNAUDITED AS AT 31 JANUARY 2016	UNAUDITED AS AT 25 JANUARY 2015	AUDITED AS AT 2 AUGUST 2015
		\$000	\$000	\$000
Investment at beginning of the year		2,778	5,541	5,541
Share of associate's profit before taxation		1,004	1,875	3,892
Less taxation		(281)	(525)	(1,090)
Equity earnings of associate		723	1,350	2,802
Dividend received from associate		(2,695)	(5,565)	(5,565)
Acquisition of majority shareholder	15	(806)	-	-
Investment at end of the period		-	1,326	2,778

The Warehouse Financial Services Limited

The Group ceased accounting for The Warehouse Financial Services Limited (TWFSL) as an equity investment when it acquired 100% of the share capital of TWFSL in September 2015. Prior to the acquisition the Group held a 49% interest, and Westpac a 51% interest in TWFSL. Following the acquisition the income statement and balance sheet of TWFSL have been fully consolidated and included within the Financial Services Group segment. Further information regarding the details of the acquisition are provided in note 15.

15. BUSINESS COMBINATIONS

In September 2015 the Group gained control over The Warehouse Financial Services Limited (TWFSL) when it acquired 100% of the company's share capital. The Group had previously held a non-controlling 49% interest in TWFSL which was accounted for as an equity investment (refer note 14). Based on the best information available the Group has initially recognised the following identifiable acquisition assets and liabilities for the business acquired.

FOR THE 26 WEEKS ENDED 31 JANUARY 2016	NOTE	UNAUDITED
		\$000
Cash and cash equivalents		3,453
Finance business receivables		57,010
Trade and other receivables		346
Deferred taxation		640
		61,449
Trade and other payables		(357)
Provision for tax		(820)
Borrowings	16	(58,629)
Provisional fair value of identifiable net assets		1,643
Goodwill arising on acquisition	5	11,700
Total consideration		13,343
The acquisition consideration is as follows:		
Cash paid for Westpac's 51% interest in TWFSL		7,337
Value attributed to the Group's previously held 49% equity investment in TWFSL		6,006
		13,343
The cash outflow on acquisitions is as follows:		
Cash and cash equivalents acquired		(3,453)
Direct costs relating to the acquisition		479
Purchase consideration settled in cash		7,337
Net consolidated cash outflow		4,363
Equity investment		
Value attributed to the Group's previously held 49% equity investment in TWFSL		6,006
Carrying value	14	806
Gain on disposal recognised in the Income Statement	17	5,200

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

16. SECURED BORROWINGS

Contemporaneously with the acquisition (refer note 15) of The Warehouse Financial Services Limited (TWFSL), the Group replaced the TWFSL borrowings with a securitisation programme. The programme is funded by Westpac under a \$225 million borrowing facility. The facility permits the Finance Services Group (FSG) to borrow up to 80% of the value of qualifying securitised finance business receivables which form part of the borrowing base. The borrowing base is set with reference to how promptly the securitised receivables are collected.

The FSG is separately financed from the Retail Group (RG) which allows FSG to have higher gearing levels than RG. To accommodate the separate funding structures for RG and FSG the Group changed its debt covenants in April 2015 to carve out FSG from the RG debt covenants. RG borrowings are subject to a negative pledge contained in two separate trust deeds and held for the benefit of the Group's banking institutions and bondholders.

17. BUSINESS DISPOSALS

FOR THE 26 WEEKS ENDED 31 JANUARY 2016	NOTE	UNAUDITED
Pet.co.nz Limited asset disposal		\$000
Consideration	11	8,411
Net assets sold		1,184
Goodwill		2,477
Carrying value of net assets sold		3,661
Gain on business disposal		4,750
Minority interest		(3,614)
Gain on business disposal (after minority interests)		1,136
Gain on business disposals (before minority interests)		
Pet.co.nz Limited		4,750
The Warehouse Financial Services Limited	15	5,200
Gain on business disposal recognised in the Income Statement		9,950

Pet.co.nz Limited business disposal

At the end of January 2016 the Group sold the business assets of Pet.co.nz Limited (formerly Shop HQ Limited) for a consideration of \$8.411 million. The consideration was comprised of an initial payment of \$6.411 million, received in February 2016 and deferred and contingent consideration of \$2.000 million, which is receivable in December 2016.

Sale and Purchase of The Warehouse Financial Services Limited

In September 2015 the Group gained control of The Warehouse Financial Services Limited (TWFSL) by increasing its shareholding from 49% to 100% of TWFSL's share capital. For accounting purposes this single transaction is treated as having two distinct components, the first being the sale by the Retail Group (RG) of its 49% TWFSL associate investment, and the second, the purchase by the Financial Services Group (FSG) of TWFSL's share capital from both Westpac as the majority 51% shareholder and RG as the 49% associate shareholder. Details of the second part of the transaction regarding the acquisition can be found in note 15. In respect of the first part and the intercompany sale transaction between the RG and FSG for the 49% associate investment, this resulted in a notional gain on sale of \$5.200 million. This gain was calculated with reference to the premium above net assets paid to Westpac for its 51% TWFSL shareholding and is included as a component of goodwill arising on the acquisition.

18. POST BALANCE DATE MINORITY INTEREST ACQUISITION

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

19. DIVIDENDS

	CENTS PER SHARE			DIVIDENDS PAID		
	UNAUDITED 26 WEEKS ENDED 31 JANUARY 2016	UNAUDITED 26 WEEKS ENDED 25 JANUARY 2015	AUDITED 53 WEEKS ENDED 2 AUGUST 2015	UNAUDITED 26 WEEKS ENDED 31 JANUARY 2016	UNAUDITED 26 WEEKS ENDED 25 JANUARY 2015	AUDITED 53 WEEKS ENDED 2 AUGUST 2015
Prior year final dividend	5.0	6.0	6.0	17,342	20,811	20,811
Interim dividend	-	-	11.0	-	-	38,153
Total dividends paid	5.0	6.0	17.0	17,342	20,811	58,964

On 10 March 2016 the Board declared a fully imputed interim dividend of 11.0 cents per ordinary share to be paid on 15 April 2016 to all shareholders on the Group's share register at the close of business on 4 April 2016.

Notes to the Financial Statements – continued

20. RELATED PARTIES

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

21. CONTINGENT LIABILITIES

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

Independent Review Report

TO THE SHAREHOLDERS OF THE WAREHOUSE GROUP LIMITED



REPORT ON THE INTERIM FINANCIAL STATEMENTS

We have reviewed the accompanying financial statements of The Warehouse Group Limited ('the Company') on pages 7 to 22, which comprise the balance sheets as at 31 January 2016, and the consolidated income statements, consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for the period ended on that date, and a summary of significant accounting policies and selected explanatory notes.

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

Our Responsibility

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

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

We are independent of the Group. Our firm carries out other services for the Company in the areas of auditors of the annual financial statements and providers of advisory services. Appropriate safeguards were applied to reduce the threats to independence from the provision of other services to an acceptable level. The provision of these other services has not impaired our independence as auditors of the Company.

Conclusion

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

RESTRICTION ON USE OF OUR REPORT

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

A handwritten signature in blue ink that reads 'PricewaterhouseCoopers' in a cursive script.

Chartered Accountants, Auckland

10 March 2016

Directory

Board of Directors

Eduard (Ted) van Arkel (Chairman)
Keith Smith (Deputy Chairman)
Sir Stephen Tindall
Tony Balfour
John Journee
James Ogden
Vanessa Stoddart

Group Chief Executive Officer

Nick Grayston

Group Chief Financial Officer

Mark Yeoman

Company Secretary

Kerry Nickels

Place of Business

26 The Warehouse Way
Northcote, Auckland 0627
PO Box 33470, Takapuna
Auckland 0740, New Zealand

Telephone: +64 9 489 7000

Facsimile: +64 9 489 7444

Registered Office

C/- BDO
Level 8, 120 Albert Street
PO Box 2219
Auckland 1140, New Zealand

Auditor

PricewaterhouseCoopers
Private Bag 92162
Auckland 1142, New Zealand

Shareholder Enquiries

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

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

Share Registrar

Computershare Investor Services Limited
Level 2, 159 Hurstmere Road, Takapuna
Private Bag 92119, Auckland 1142
New Zealand

Telephone: +64 9 488 8777

Facsimile: +64 9 488 8787

Email: enquiry@computershare.co.nz

Website: www.computershare.co.nz/investorcentre

Direct Crediting of Dividends

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

Investor Relations

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

Stock Exchange Listing

NZSX trading code: WHS

Company Number

New Zealand Incorporation: AK/611207

Website

www.twg.co.nz

Sustainable Business Council



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

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

The SBC is a coalition of leading businesses united by a shared commitment to sustainable development via the three pillars of: economic growth, ecological balance and social progress.

Its mission is to provide business leadership as a catalyst for change toward sustainable development and to promote eco-efficiency, innovation and responsible entrepreneurship.



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



FTSE4Good

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

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

