INTEGRATED REPORTING

HOW WE CREATE VALUE THROUGH OUR BUSINESS MODEL

OUR BUSINESS MODEL
Our core business is retailing of products and services principally aimed at consumers, however we do have a strong presence in the small-to-medium-sized business segment and a sizeable commercial business.

Under Integrated Reporting our concept of creating value is broader than 'how our business process consumes these inputs to create financial value'. It recognises that our business model adds value to each capital at every step in the process, and that value is determined in the context of each capital. As can be seen by the diagram below, value is driven in different ways across each capital at each stage in the process of managing our retail business. The six capitals are not commodity inputs or outputs, rather, they are an intrinsic part of the process of managing a retail business and are impacted in many different ways. External forces, which are covered in our approach to risk management, also influence the six capitals.

RETAIL VALUE CREATION PROCESS

	UNDERSTANDING OUR MARKET	SOURCING PRODUCT	BRINGING PRODUCT TO MARKET	OMNI-CHANNEL SALES ENVIRONMENT	SUPPORTING NEW ZEALAND COMMUNITIES
OUR NETWORKS	Demand forecasting analytics and tools to better understand demand and volume.	International supply offices to ensure local focus and reach into manufacturers and upstream supply chain.	Minimise cost to serve through efficient, managed distribution, warehousing and delivery on time to store. Efficient process management and inventory costing and access to branded products.	Almost universal coverage across NZ, with key local retail points of presence across the country as well as leading omni-channel experiences. Seamless experience for customers across physical and digital channels.	Universal reach means no part of NZ is outside of our influence. Our capabilities can be leveraged to deliver what is needed. Extended operating hours provides choice and access.
OUR PEOPLE	Providing opportunities for team members across the Group to provide customer centric feedback, feeding into design and product choices.	Providing career pathways across the retail value chain, valuing language and cultural differences, giving end-to-end insight and experience across retail activities into sourcing and wholesale.	Providing jobs throughout the network that recruit unskilled and skilled labour into retail and business career pathways. A safe working environment that values an individual's right to return home safely at the end of the day. Recognition of experience and fair and equitable remuneration. Supportive wellness programmes. Opportunities for progression and learning.	Specialist sales and customer engagement training. Treating customers as you would expect to be treated yourself. Flexible working arrangements and equal opportunity advancement. Career opportunities with cutting edge technologies in online retail and the opportunity to contribute to leading retail change in NZ.	Enabling our people to be a part of their community while being part of the Group. Caring and committed teams drive superior customer experiences, increased engagement and performance. Doing the right thing is part of who we are and what we stand for.
OUR EXPERTISE	Understanding customers, through insights and analytics. Fitting product to market at the right price/value/quality intersection. Demand planning and forecasting.	Contract negotiation, quality management and long-term relationship development. Ethical sourcing practices.	Continuous improvement and drive for efficiency. Use of best practice at scale in NZ provides the opportunity to influence change for the better. Modernisation of core systems to disrupt our business model from within.	Value is created through sales expertise, product knowledge and customer service. Product availability and ability to fulfil on time and to meet or exceed customer expectations.	Effective community engagement programmes deliver real results, not intentions. Practised processes to support and empower the people in our communities enables us to deliver on promises that are meaningful to our communities and stakeholders.
OUR RELATIONSHIPS	Developing long-term relationships with suppliers and manufacturers with a focus on ethical work practices and sustainably sourced raw materials.	Developing mutually beneficial partnerships to represent product and provide access to market for manufacturers.	Key partnerships with third parties are an intrinsic part of bringing product to market, and enable us to focus on the risks we manage best, and avoid being a jack-of-all-trades. Mutually beneficial relationships give us access to investment in automation and technology that may be unavailable to stand-alone operators.	A life-cycle perspective of customer interactions. Each transaction is important to build the relationship, however it is the lifetime customer experience that creates loyalty and discretionary participation. Driving loyalty to improve the return on investment on promotional activity and feed up into the product decision making process.	Giving back in support of the communities our customers and team members are part of. Saying thank you and recognising that it is a privilege to be part of a local community, not a right. Creating employment and giving customers what they need.
OUR ENVIRONMENT	Taking a lead on sustainable product quality and materials, packaging and consumption.	Minimising wastage and enhancing product quality through sustainable material and manufacturing processes.	Minimise our impact on the environment through smart use of technologies, packaging, labour management, minimising rework and harmful materials. Maintaining compliance with all materials handling regulations.	Reinforcing good environmental practices at the customer edge, reducing plastics in packaging and providing customers with choice and sustainable options without premium pricing those choices. Role modelling environmental stewardship.	Combining the Group's objectives with those of community groups to maximise impact on environmental matters. Taking a leading role in modelling, educating and facilitating in NZ business. Creating incentives and new opportunities for communities to make a difference.
FINANCIAL CAPITAL	Maintaining our financial resilience and access to capital as a key enabler to retail value creation. Developing and providing innovative payment solutions for customers.	Trade terms with suppliers that manage product risk and maximise financial capacity. Efficient use of working capital to maximise leverage. Management of FX risk that maintains attractive pricing for our customers.	Optimising the economically efficient use of network assets, minimising our cost to serve and inventory touchpoints. Reducing wastage and breakage. Exploring ways to utilise and express existing assets in ways that create value.	Effective sell-through and margin management of products in the right channels. Price optimisation and on-target seasonal events all drive financial value through improving inventory turn rates and minimising clearance. Creating adjacent value streams through value-add services. Diversifying channel risk.	Partnering to share risk. Leading transparency and accountable reporting to increase trust and confidence among investors and financial partners.

BOARD SKILLS MATRIX
RISK & MATERIALITY

RISK & MATERIALITY

The Group faces a broad range of risks as a retailer within New Zealand. These risks include macro-economic, competitive and industry sector risks, including those relating to international trade and our trading partners from an importer's perspective.

Business specific risks include those resulting from our responsibilities in the areas of strategic planning, forecasting, day to day operations, investment and programme or project management.

Strategic Risk Management within the Group is conducted using a structured framework, and deals with two primary concerns:

1. Understanding what the Group's risk appetite is, or our willingness to take and manage risks in the pursuit of value and competitive advantage.
2. Making active decisions around risks and whether to accept, transfer, share or mitigate risks that, in the absence of mitigation strategies, fall outside the target risk settings or acceptable risk appetite.

The Group's risk management framework seeks to ensure that there is an effective process in place to manage risk across all the brands within the Group.

The Group acknowledges that risk management is important to all aspects of our activities and is the responsibility of every team member. Managers have a particular responsibility to appraise their risk environment, to put in place appropriate controls and to monitor the effectiveness of those controls. Our risk management culture encourages analysis and management of risk in all business processes. These risks are identified, assessed and managed at both an enterprise level (top-down) and business level (bottom-up).

An Enterprise Risk Management Committee will be responsible for this framework and meet monthly to discuss its application, monitoring and management of material risks. The committee will provide a report on its activities to both the Senior Executive Team and the Board.

Strategic Risk plans are developed for each primary brand and the Group overall. Operational Risk plans are developed within brand and Group functions to deal with specific operational risks.

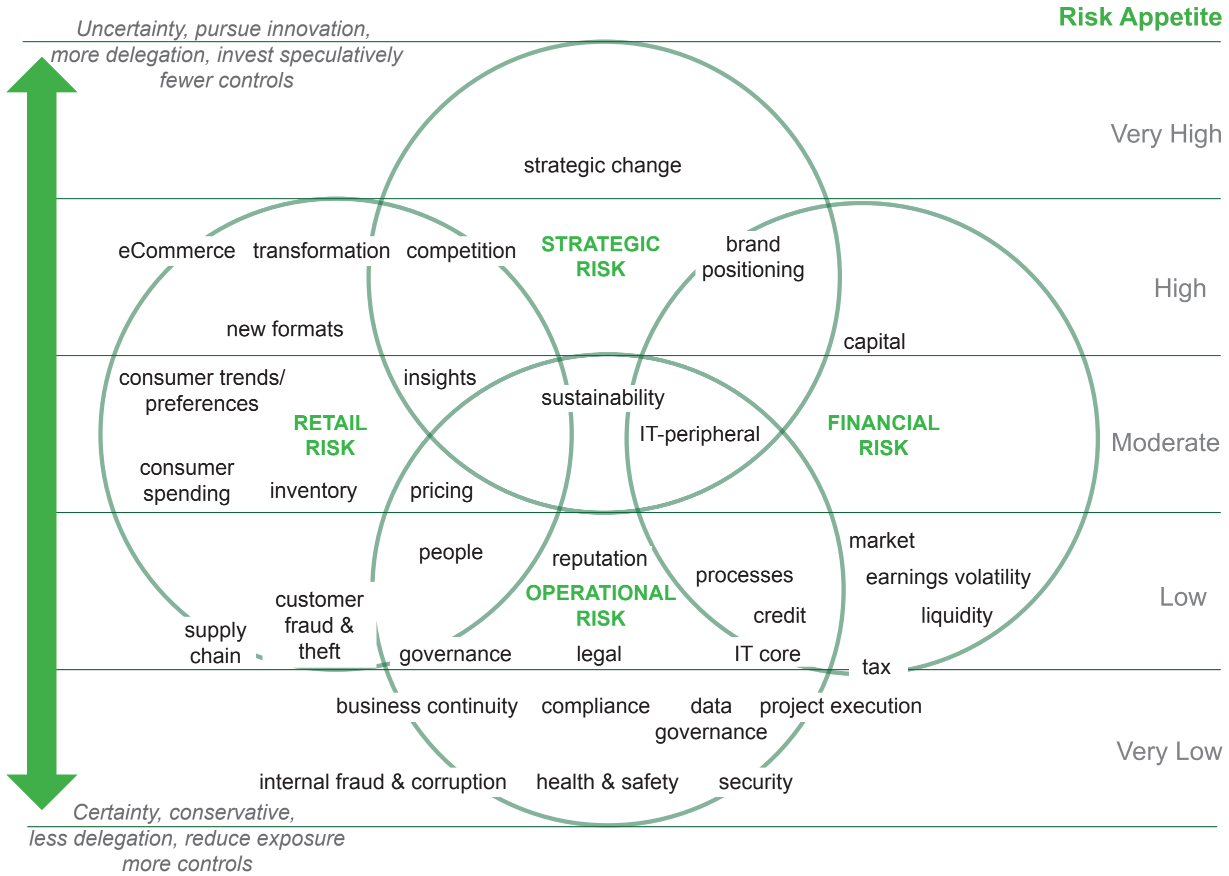
Specific Risk areas are then managed depending on the nature of the domain and our risk appetite settings. For example, in the Health and Safety domain, we have identified certain critical risks which are actively managed as focus areas (Traffic Management, Hazardous Substances, Storage of Product, Violent and Aggressive Behaviour, Working at Height).

Risks arising from the Group's responsibilities can be significant and these risks are managed through detailed processes that emphasise the importance of integrity, maintaining high quality team members and stakeholder accountability.

The diagram opposite outlines the risk appetite for the Group taking into account the various brands. This reflects a balanced perspective on the management of risk which considers our ability to:

- Grow the business and improve the return on equity. To achieve this, the Group needs to continue to innovate and accept some uncertainty
- Achieve growth and return. The Group needs to execute our strategies and maintain control over operational costs, quality and delivery of performance
- Ensure we maintain financial rigour while investing capital into our digital transformation.

INTEGRATED REPORTING



Each risk domain in this framework has subsequent detailed breakdown, identification of causal factors and risk management plans. We continue to work to improve, refine and formalise our risk management approach.

Materiality
Materiality in the six capitals is different from financial materiality in the Financial Statements. It is driven by the risk appetite settings, and the specific outcomes and strategies in each capital. A material improvement in our environmental reduction outcomes, for example, may be different this year compared to other years depending on the starting position and default trajectory of performance. Building on an improvement may mean we have a higher materiality for change than if we were attempting to arrest a declining performance.

Materiality is therefore relative to each strategy and metric in each capital and is used to filter what is reported and what is not. The Integrated Report is not the definitive or last word that the organisation has to say on a given topic, it is the material performance report against those elements in the capitals that we are trying to influence or improve.

Intrinsic in the Integrated Reporting Framework is a degree of inter-connection between the capitals. Risk and materiality is considered within the domain of a capital, risk within the domain of strategies that may operate across capitals.

The progress diagrams that are reported in the six capitals section of the integrated report follow the following key:

Colour signifies progress against expected plans	Size signifies completeness of Objectives
Not currently measured	Early stages of completion
Behind plan	50% complete
On plan but at risk	75% complete
On plan	100% complete

OUR NETWORKS

OUR NETWORKS

OUR GOAL: Create a world-class omni-channel retail network that leverages physical, digital and infrastructure assets to deliver customer needs and wants in an efficient and innovative way

FOCUS AREA	PRIORITIES	ACTUAL PROGRESS FY18 (last year)	FY19 (this year)	FY19 Progress	ROADMAP TO OUR GOAL FY20 (next year)	FY21	FY22+	KEY RISKS	MITIGATIONS
Customer facing channel optimisation	Improve our store experience and productivity	○	◐	• Co-located 6 Warehouse Stationery and The Warehouse stores, continuing to test the ranging, customer experience and profitability changes • 24% of capital expenditure allocated to asset maintenance • Online traffic for the Group increased 5.5% year on year while store foot traffic reduced 1.1%, however overall gross profit increased 3.8%	◕	●	●	• Lack of well-positioned affordable retail space • Some landlords not responding to seismic upgrades proactively	• Re-purpose and re-utilise excess space within our large format stores. • As more The Warehouse and Warehouse Stationery stores are co-located, re-purpose vacated Warehouse Stationery stores with other Group brands. • Work with our landlords to ensure stores meet seismic risk requirements.
	Increase our digital footprint and productivity	○	◐	• Click&Collect sales grew 57% across our omni-channel brands to now represent an average of 36% of online sales • Online conversion reduced by 3 basis points driven by a reduction of 30 basis points in Torpedo7, partially offset by The Warehouse app, which increased by 64 basis points • The Warehouse app, which has the most 5-Star reviews of any NZ shopping app[1], grew sales by 244% and now represents 19% of total online sales for The Warehouse.	● Year on year incremental growth	●	●	• Increasing customer demands driven by continued growth in online shopping • Local and international online retailers taking market share across digital channels.	Improve the omni-channel experience by: • Linking physical and digital and scaling personalisation across channels. • Reinventing our Click&Collect experiences and launching TheMarket.
Optimise supply chain network	Increase our level of direct sourcing	●	●	• Moved a further $62m (FY18: $119m) of product purchases to our direct sourcing offices in China, India and Bangladesh.	● Ongoing improvement	●	●	• Challenge of investing in new, stronger suppliers inside and outside of existing sourcing markets • We are aware of the risks of corruption, particularly in the quality and merchandise teams.	• Consolidate our investment into Asia by creating a direct entity in Bangladesh, supporting the existing team with senior leadership at source and regularly rotating team members through different merchandise categories.
	Reduce our cost to serve and enhance store deliveries	○	◐	• Achieved a store DIFOT (Delivered In Full On Time) of 97% vs our target of 98% • Cost to serve increased by 11% • Centralised online fulfilment into our North Island Fulfilment Centre for The Warehouse (and Warehouse Stationery post balance date) • Deployed a new warehouse management system to improve online fulfilment performance.	◕	●	●	• Significant increase in retail spend, including online shopping growth, will challenge costs, resources and distribution capabilities • Peak period stress on underlying systems and processes causes unscheduled outages.	• Collaborate across the supply chain to collectively reduce costs, improve forecast accuracy, and reduce inventories. • Develop robust contingency, preparation and continuity plans for peak trading volumes and issue/incident management. • Unify commerce strategies to tailor shopping experiences around individual preferences.
	Grow our fulfilment capability to support customer choice	○	◐	• Achieved a Perfect Order of 88% vs our target of 95% for online customers.	◐	●	●		
Data optimisation	Increase our pool of quality data	○	◐	• Net Promoter Score across all brands either improved or remained consistent[2] • Our Master Data Management practices will be the subject of a major overhaul in FY20.	◐ Development and implementation of a quality data programme	◕	●	• Data quality issues slow down the speed of effective change and decision making • Data security and privacy is becoming an increasingly important issue.	• Develop a structured programme to improve data quality and practices utilising external advisors. • Continue to strengthen data protection and minimise the amount of third-party information we hold.

Key initiatives

We have made some significant changes within our property portfolio this year, rolling out six SWAS stores (store within a store: Warehouse Stationery and The Warehouse stores co-located), three new Noel Leeming clearance stores (following the acquisition of Appliance Shed) and four new Torpedo7 stores.

We analyse store catchment, identifying four critical areas to resolve to achieve best future use of our properties: small (urban) formats; future (flexible) formats; our physical presence across New Zealand; and tenancy/third party services.

We added new interactive capabilities to enhance customer support via chat bots and live chats. Our other eCommerce venture, TheMarket, successfully launched shortly after balance date.

We developed a Group integrated sourcing model by consolidating our wholesale and Torpedo7 sourcing functions into our sourcing and merchandise structure. We completed our cross-functional, product critical path for every category, to help give us greater alignment and visibility of tasks for sourcing and merchandise.

We enhanced our fulfilment and delivery capabilities, centralising our online fulfilment for The Warehouse and Warehouse Stationery, introducing Click&Collect lockers into some stores, trialling an automated distribution tower at Sylvia Park and commenced implementing our new warehouse management system. Our Information Systems strategy has been refreshed and we are planning a major ($100m) systems modernisation programme across the Group's core systems of record.

Materiality

Online commerce has changed consumer expectations in regard to their shopping experiences. While physical store shopping is still a significant consumer activity, online shopping continues to grow. That means we face greater competition from a broader range of general and specialist retailers both here and overseas. This represents a considerable and ongoing material risk to our business and one we intend to combat by investing actively in our supply chain co-ordination, data optimisation around each customer, improved digital capabilities and attractive stores that our customers enjoy shopping in. In acknowledgement of the future need to re-purpose or reformat our physical store network, the Group has prioritised flexibility in our store lease profile over tenure. Transport is outsourced to partners except for in-home delivery and installation teams.

[1] Apple iOS App Store and Google Play Store

[2] Customer voice

Significance

Retail is an unforgiving sector. If customers cannot buy what they are looking for, they have a number of other places they can turn to. Our network is the critical link between what we offer and what our customers choose to spend their money on. If we fail to understand what our customers want and how they most want to buy and receive it, we are compromising their willingness to come back to us. Our network enables us to bring the right product to the right place at the right time, at a cost that makes economic sense, and in a way that serves our customers' needs best.

Better experiences across channels
Physical property and online environments are core elements in customers' experiences. Our understanding of what constitutes a 'store' has broadened as a result. Our focus now is to increase our foot traffic and per-visit purchase by introducing smaller formats and new concepts that put our customers' needs first. At the same time, we will continue to build our eCommerce capabilities, improving our omni-channel experiences to enable them to shop however, whenever and wherever they want.

Better integration from source to sale
An integrated view of inventory and order management is key to unlocking efficiencies and delivering improved quality, on trend products and product information from the best suppliers. Those products will need to arrive on time through complete alignment between our sourcing teams, merchandise teams, shipping teams and overseas factories.

Network optimisation is a key focus for us, as we drive efficiency and look to utilise our core assets and capabilities in new ways to drive value.

Future focus areas

These are the areas where we know we can make important gains:

- Improving property footprint productivity – working with insights and data to complete a robust catchment analysis for all our brands, supporting the SWAS programme and objectively evaluating new format initiatives
- Improving our omni-channel experiences to better link physical and digital
- Achieving an integrated view of our inventory and order management to unlock efficiencies and improve our customer service.

RISK & MATERIALITY
OUR PEOPLE

OUR PEOPLE

OUR GOAL: Build a dynamic organisation that has the highest performing retail talent in New Zealand

FOCUS AREA	PRIORITIES	ACTUAL PROGRESS: FY18 (last year)	ACTUAL PROGRESS: FY19 (this year)	ACTUAL PROGRESS: FY19 Progress	ROADMAP TO OUR GOAL: FY20 (next year)	ROADMAP TO OUR GOAL: FY21	ROADMAP TO OUR GOAL: FY22+	KEY RISKS	MITIGATIONS
Health, Safety and Wellbeing	Increase the number of our team members who go home safely at the end of their work day			Total Recordable Injury Frequency Rate (TRIFR)[1] increased from 21.5 (per million hours worked) in FY18 to 25.9 in FY19 against a target of 18.3 • The majority of TRIs are strains and sprains of a minor nature • High level of reporting in place, with high levels of near miss reporting Our Severity One Incidents Frequency Rate (SV1FR)[2] was 22.4 per million hours worked (not measured in FY18).	TRIFR <20 million hours worked SV1FR >10% year on year decrease	TRIFR <15 million hours worked SV1FR >10% year on year decrease	TRIFR <10 million hours worked SV1FR >10% year on year decrease	• Handling of bulky, heavy or awkward goods by team members • Slips and trips due to poor housekeeping or excessive stock • Stockroom racking failure causing product fall • Team member interaction with moving equipment • Falls from height from ladders • Exposure to violent and aggressive behaviour in our stores • Storage of hazardous substances.	• Early intervention programme for pain and discomfort and review of team member tasks in stores • Manual handling improvement programme involving AUT Occupational Health Unit • Equipment solutions for goods handling • Invest in traffic control processes across distribution centres to separate people from mechanical handling equipment (MHE) • Consideration of height access equipment to replace ladder use where practical • Introduce enhanced security for high risk stores • Ongoing compliance with regulatory standards.
High performance workplace	Increase our organisational health and engagement			• Achieved an Organisational Health Index (OHI) of 68 (FY18: 71) maintaining our position in the second quartile • Launched Group Performance and Development Framework.		OHI in top quartile	Ongoing improvement	• Team member and/or union dissatisfaction with change and bargaining outcomes.	• Develop a clear employee relations strategy • Build and nurture relationships with government and external stakeholders.
	Lift our diversity and inclusion			• Achieved Rainbow Tick accreditation in September 2019 • Achieved 100% gender pay equity in our store network.	Maintain Rainbow Tick accreditation	Retain Rainbow Tick accreditation. Gender diversity is at best practice in our store network.		• Challenge in building and/or buying required talent capability.	• Proactively develop talent pipeline • Assign appropriate budget and technology to lift capability • Activate a single-entity approach to talent development and mobility.
Future-ready talent	Build our skills pipeline and workforce planning			• Introduced a single source of recruitment across the Group • Commenced leadership behavioural model • Took an average of 43 days to fill roles vs our target of 60 days.				• Gap in change management experience and demonstrated resilience as we prepare our culture and organisation for Future of Work environments.	• Invest in technology to reinvent productivity • Define clear direction around expected leadership behaviours and seek support from external experts • Align communication clearly and consistently with vision and strategy.
	Introduce continuous learning and future-ready learning experiences			• Launched 'Ability2Execute' facilitated and digital training programmes • Commenced work to build a 'learning, fail fast and iterate' culture.				• Resistance to change • Training does not meet organisational requirements and impedes speed of change.	• Support change readiness through leadership guidance and by shifting mindsets • Streamline engaging communication.

Key initiatives

As part of a shift to a Group focus on performance, we aligned a set of Group values on which to orient our culture. We also introduced a performance focus and discipline to all of our activities and actions, with a new performance and development model aligning goals and measures for all positions.

With a distributed employee model, communicating effectively is critical, especially through times of change. We deployed Workplace by Facebook as our unified platform of communication and engagement, to share vision, best practices and dialogue across all our team members.

In stores we have implemented tools to improve productivity and deliver real-time analytics on store performance. These tools also support coaching and timely feedback for managers and team members.

To help us continue to secure the best people available, we established a connected talent relationship and recruitment digital solution powered by SmartRecruiters and Phenom People.

Key Health, Safety and Wellbeing changes: we introduced a new anti-bullying and harassment policy, launched new Health, Safety and Wellbeing Standards and completed Bow-Tie analysis for three priority critical risks. In our distribution centres, we focused on traffic management and mechanical handling equipment and in FY20 we will be allocating capital for further safety improvements. Directors of the Board attended a number of Health and Safety observations, engaging directly with our people at sites across the country.

From a team development perspective, the transformation programme has delegated the responsibility for driving change across over 150 initiative owners in the business. As we look to move the business towards a more collaborative, less structurally rigid way of working, empowering more team members to own and drive change will be a key success measure.

During FY19 we focused on five priority practices for improving our organisational culture: Challenging Leadership, Performance Framework, Talent Development, Performance Review and Rewards & Recognition. In our team member engagement survey at the end of the financial year, we improved on four out of five of those practices, with Rewards & Recognition going backwards. In FY20 we will adopt a revised set of priority practices based on survey feedback.

Significance

Our team members are at the heart of our organisation and we believe that by focusing on their performance, keeping them safe and preparing them for the future workplace we will lift engagement and achieve long-term business sustainability.

To do this, it is critical we invest in digital solutions to leverage people data and insights to drive performance. Alongside this, we focus on our people's wellbeing and everyday experience at work. We are also focused on attracting top talent, building the skills of the future and defining and embedding leadership behaviours. We continually develop and strengthen our relationships with industry bodies and government to ensure we remain part of the conversations, helping to shape the future of work in New Zealand.

Materiality

True transformation requires culture change and a meaningful shift to a new way of working. Naturally, change can take time and is sometimes met with resistance. This has meant in some cases we have not met the milestones we have set in some initiatives. We also made the conscious decision to exit the implementation of a digital solution option which in turn impacted our potential to scale performance.

Despite this, rapidly changing technology is shaping the future of work and as customer expectations continue to evolve, we need to make significant process, productivity and technology improvements to unlock performance and enable improved ways of working. The next several years will see deliberate change as we prepare our culture and organisation to move into the future of work environments. Moving our culture to be more adaptive will take time. Financial investment into technology, talent development and health, safety and well-being will be critical to reinvent productivity across the Group.

Future focus areas

Our focus in FY20 and beyond will be to accelerate initiatives that deliver:

- Simplified practices and processes that will allow us to track and measure performance and productivity
- Consequence management and remuneration to reward output
- Connected digital solutions that function at scale, enabling productivity and actionable insights
- An evolving organisational structure, team design and capability to support future ways of working.

1 TRIFR is measured as a 12-month rolling and 1 million hours is used

2 Severity One Incidents are those with a high potential for serious injury, long-term health effect or death. SV1FR is measured as a 12-month rolling and 1 million hours is used

OUR EXPERTISE

OUR GOAL: Build ways of working that foster repeatable and competitive excellence

FOCUS AREA	PRIORITIES	ACTUAL PROGRESS FY18 (last year)	FY19 (this year)	FY19 Progress	ROADMAP TO OUR GOAL FY20 (next year)	FY21	FY22+	KEY RISKS	MITIGATIONS
Understanding our customers	Use data analytics and insights to achieve better demand planning, product/market fit and more accurate forecasting			• Reduced our aged inventory by 3.3% • Maintained a stock turn of 4.3 • Invested in capability and methodologies in our Data Sciences and Design teams to help drive insights to inform decision making • Further developed a unified view of the customer.	Establish seasonal sell-through metrics			• Concerns over data privacy.	• Adopt a conservative posture and ensure an approach that is consistent and compliant with privacy legislation and best practice • Run customer loyalty programmes across the Group.
Enterprise systems and processes	Integrate and simplify business processes across the Group Innovate at the customer edge using customer-based thinking			This year we have focused on: • increasing the ratio of effort on systems and processes that add value for our customers. We have achieved a ratio of 34%, which is below our target of over 50%. The investment into a replacement back-office integrated system will, by the end of FY21, enable more focus on value-adding processes; • increasing the number of standardised systems and processes across our brands. We have made a small amount of progress, reducing the number of bespoke systems by 2%.	Investment in and implementation of enterprise systems			• Complexity of moving from build to buy/configure with some build at customer edge. • Organisational resistance to change, moving to a Group standardised, consistent, highly visible and transparent approach.	• Develop pathways, retention and support for end of life systems decommissioning • Manage end-of-life workloads • Build capability to support chosen platforms. • Support change readiness through leadership guidance and by shifting mindsets • Standardise processes in line with best practice and new integrated solution.
Innovation	Create leading customer experiences that drive demand Move towards a more collaborative operating model			• Innovation in Click&Collect with an automated distribution tower being trialled at Sylvia Park, continued rollout of self-service checkouts and ongoing innovation with the launch of TheMarket and mobile app features. • Industry recognition for innovation in technology solutions (Elastic). • Much of the workload is still waterfall in nature, with agile teams operating in the eCommerce domains. In FY20 we will focus on developing plans to move towards a more customer-centric way of working.				• New customer experience technologies do not meet customer demands. • Waiting for core systems to be upgraded before implementing change.	• Establish collaborative and customer-centric design innovation capability and investment. • Drive customer-centric ways of working in systems of engagement first (eCommerce).

Key initiatives

Product is at the heart of every successful retailer. Customer is at the centre of every successful business. Our expertise combines our skills across product and customer to drive value. We continue to use data driven insights to improve customer experience. Our merchandise teams align these with our design cues and market trends for product range and assortment planning. While we have invested in improving processes around range management, contracting, specification, quality and pricing, many of our retail processes, particularly those around data interpretation and editing product assortment, remain undocumented. This presents a risk and makes innovation and consistency of operations a challenge. As processes are redesigned and improved, documentation and operational support materials will be developed and deployed.

Our strong store layout methodology is documented and is applied to all store types depending on store size, shape and product range. The format of our stores is a key part of the customer experience and we have a number of challenges ahead to manage relevant and modern experiences consistently across our store network.

Every Day Low Prices (EDLP) has made demand planning and price setting more important as there is not the same discounting mechanism to readily address slow moving stock. We are focusing on improving our forecast accuracy and achieving better continuity of product to meet customer demand. Mastering the sell-through curve is about finding the right balance of ongoing and seasonal stock and lowering our weighted average cost of aged inventory. Critical to getting this right is smart demand management. Right now, this is a relatively manual process. We have recognised the need to standardise, automate and document our processes, and while good progress has been made on assortment and range planning, most of the work on demand management is still ahead of us. We are currently focusing on building our expertise in price optimisation and assortment management.

As a group, we operate a number of businesses that use different systems and processes. Our strategy is to provide a more stable core platform of systems and common processes upon which the brands can accelerate their points of competitive differentiation. Across the Group, we currently spend 66% of our Information Systems development and support effort on our core systems of record, and 34% on systems of engagement. We are about to start a major systems and process modernisation investment to drive efficiency and common processes across the Group, supported by a modern technology stack that will enable future innovation.

Materiality

As a customer-focused business, we depend on the expertise of our people in so many ways. We are heavily reliant on the expertise of our team members and on old core systems that require complementary manual resources.

Automation will give us greater resilience because it will mean we are not so dependent on individuals' knowledge. We still need critical human judgements around negotiation, relationship building and so much more. We recognise that leading the customer experience through innovation, for example, will be important in terms of creating and measuring demand.

Materiality can be thought of in the context of reducing key person risk in areas where we create value for customers, and areas that are sources of competitive advantage and scale. Also relevant is the time it takes for team members to be fully productive as well as the reduction of unplanned variability in our processes and outcomes.

Significance

To keep up with changing demands, we need to become better at executing what's relevant for the customer. Meeting their demands means we need to find new ways to deliver value faster.

While we have made some good progress on aged inventory and full price product sell-through versus our targets, we have only recently developed interactive reporting on optimum product inventory ranges. This is enabling data visibility and analysis in more in-depth detail than has previously been available. We are continuing to develop this to identify and maintain the right products at the right quantity levels that align with our customer demand.

We have a key person risk that we need to resolve. Expertise lies within our team members and should they leave the business, the knowledge leaves with them, so we recognise that a focus on documentation and systemisation is a priority.

Old legacy core systems with lack of integration are not fully supported and some are not fit for purpose given the business growth and advances in customer demand for a seamless omni-channel experience. Having a large number of systems means integration is difficult and complex, consolidated data is not easily available. In recognition of this risk, the Board has approved an integrated solution discovery project, which is well underway. A decision as to whether or not to move ahead to implementation with a preferred supplier will be made in FY20.

Future focus areas

Over the next two to three years, we will be focusing on:

- standardising systems and processes by implementing an 'out of the box' integrated suite, completing implementation of our new warehouse management system and implementing a modern point of sale system across our brands
- systems and processes that add value to our customers, including upgrading our existing B2C eCommerce platform for the Group and a new B2B platform
- standardising our retail systems and documenting our processes across our brands
- monitoring and understanding product demand versus our forecasts to enable timely corrective action.

OUR PEOPLE
OUR RELATIONSHIPS

OUR RELATIONSHIPS

OUR GOAL: Build strong relationships with strategic stakeholder groups that deliver sustainable value

FOCUS AREA	PRIORITIES	ACTUAL PROGRESS FY18 (last year)	FY19 (this year)	FY19 Progress	ROADMAP TO OUR GOAL FY20 (next year)	FY21	FY22+	KEY RISKS	MITIGATIONS
Customers	Rewarding and engaging customer experiences	🟡	🟡	• Net Promoter Score across all brands either improved or remained consistent[1] • While customer frequency of purchase has remained stable year on year[2], there has been good growth in basket size in Noel Leeming and Torpedo7 • The Warehouse Group market share grew to 5.8% of the total market[3].	🟢	🟢	🟢	• International competition is growing in New Zealand, as New Zealanders show that they are more ready to interact with overseas brands than ever before • Customer disposable income remains constrained in the years ahead.	• Deliver add-on/supporting services surrounding retail • Focus on delivering value for money propositions linking sustainability values.
Suppliers	Collaborative and engaging supplier relationships	🟢	🟢	• 90.7% of our overseas suppliers meet our 'good factory' standards and measures, up from 90.1% last year. Our stringent focus with suppliers in this area has resulted in a significant change from 57.1% in 2015.[4]	🟢	🟢	🟢	• Consolidation in upstream suppliers limits our choices for changing buyer power dynamics • International trade barriers or limitations of access • Cost of goods sold (COGS) exposure to inflation drivers in other economies.	• Diversify supply chain geographically • Continue to apply hedging and appropriate risk management processes.
Team members	Strong employment brand	🟡	🟡	• The Group has 89% employment brand awareness and 37% attractiveness within the Wholesale and Retail Trade sectors.[5]	🟡	🟡	🟢	• Churn, driving increased staffing costs • Industrial Action risk increases due to climate of wage 'catch up' and base wage inflation.	• Partner with employee groups • Broader services of participation and values beyond wages.
Investors	Reputable standing in the investment community including in our ability to deliver results	🟢	🟢	• Displayed evidence on stated transformation plan, however we still have a long way to go • Achievement of forward-looking guidance.	🟢	🟢	🟢	• Liquidity of free float stock insufficient to drive more active investor interest in the stock • Market prioritisation of short-term profits over long-term sustainable value creation.	• Continue to maintain recurring and open dialogue with the investment community • Provide timely and transparent disclosure of company performance, strategy and investments • Deliver on stated Group goals and performance targets.
Government and community	Strong corporate brand and reputation	🟢	🟢	• The Warehouse is ranked 8th in New Zealand for its corporate reputation with its 108[6] score putting it in the global top 10% of companies that have resilience and reservoirs of trust • $67m raised in donations for New Zealand since 1982 including $0.3m for Victim Support following the Christchurch attacks • 700 New Zealand youth participated in Red Shirts in Communities (RSIC), a programme resulting from a partnership between the Group and the Ministry of Social Development. The RSIC programme was digitised through the Accelerator platform.	🟢	🟢	🟢	• Our capacity to support Government initiatives is exhausted or spread too thinly to be effective • The Warehouse Group becomes too politically identified, leading to reputational risk.	• Continue routine accountability reporting.

We invest in long-standing, sustainable relationships to build our networks based on shared understanding and values. We engage with our many stakeholders in ways that align with their influence and involvement in the life of our business.

Measuring our impact and the strength of relationships is difficult, and something we continue to work on. Some basic measures are available such as money raised to support charities and local communities, or international suppliers accredited for ethical sourcing, but we recognise that relationships go deeper than outcomes. Our work in FY20 will involve more focus on measurement in this area.

Key initiatives

This year we began a two year journey to bring all our marketing in-house to create a fully-scaled and integrated marketing function that delivers for our customers and our business. This has significantly increased our accountability across our entire marketing supply chain. We further developed customer journey maps to continue to optimise customer experiences and saw good growth in The Warehouse app. Understanding our customers and how they want to interact with us is core to better meeting their needs.

We continued to consolidate our supply chain, placing more business with fewer, stronger suppliers and creating deeper strategic relationships. For example, we consolidated our fabrics buy by 79% and shifted 29% of our apparel business to Bangladesh, India and Pakistan. This helps bring suppliers closer to our business, making it easier for them to help us innovate, and to drive quality and economy, deliver more effective waste reduction programmes, and focus our work to support up-stream suppliers more effectively.

In our relationships with investors, we are driving the adoption of Integrated Reporting as evidenced by this report. Using the principles of Integrated Thinking in decision making, helps our business to recognise the different aspects of value that are important in a way that is understandable and consistent.

We interacted with appropriate Government Ministries and related public parties on issues ranging from climate change to youth employment to technology. We also provided input into a variety of legislation including De Minimis, Employment Relations Amendment Bill, Equal Pay Amendment Bill, Plastic Bags, Waste, Ministry for Primary Industries Cost Recovery Actions, Food Safety and Foam Filled Furniture.

The Red Shirts in Schools (a high school based retail work experience programme) now reaches more than 2,000 participants. We piloted P-Tech, a high school IBM partnership for technology students.

We will be concluding our funding for the establishment of the Massey University Bachelor of Retail and Business Management (BRBM) degree, which has now been established and is growing solidly year on year. We are also driving Retail as a Career through Industry Training Organisations and membership on the Boards of Directors at ServiceIQ and Retail NZ.

1 Customer voice
2 Market view token data
3 Marketview (total market includes petrol, supermarkets and non-retail spend)
4 Based on our factory assurance audits
5 Randstad New Zealand
6 Colmar Brunton's Corporate Reputation Index 2019 in partnership with Wright Communications

Significance

The continuing rise of global online retailing means that our customers have unlimited shopping choices 24/7. We must source dynamically and deliver the latest trends quickly by partnering and planning with the right suppliers to remain relevant and continue to grow in our market.

Our customers

As New Zealanders face increasing challenge in balancing their weekly household budget, we want to help them live better every day by guaranteeing market leading quality, availability, selection and convenience at the best possible value.

Investors

A track record of doing what we say we will do, being transparent and open, as well as showing our values and who we are as a company will help investors make good decisions about supporting our business. Our goal is not to pitch our company to investors, but to expose investors to our thinking and our way of operating so that they are appropriately informed about us and the risk/reward proposition that we represent.

Our suppliers

Our relationships with our suppliers focus on meeting our product sustainability objective to source sustainably, optimise design and support recycling. By consolidating our suppliers and building more strategic relationships, we can drive long-term value.

Government and community

Operating in a deregulated industry does not absolve us from playing a role in the future wellbeing of our country. It is a privilege to be part of the communities we serve. We work with government and our communities to leverage our capabilities in ways that matter to the people who are our customers, suppliers and partners, not only of today but also tomorrow.

Our purpose is helping Kiwis live better every day. It is a role that can make a difference in many ways.

Future focus areas

Our focus in FY20 and beyond will be to:

- Deliver stronger end-to-end customer experiences that motivate our customers to give us lifetime value
- Drive product development and design through strategic relationships with our suppliers and take the ethical and sourcing actions that our customers now expect
- Prepare our culture and organisation to move our team members into the future of work environments
- Continue to work within our communities.

OUR ENVIRONMENT

OUR GOAL: Retain our carboNZero status and drive more responsible practices and resource efficiency into our business

		ACTUAL PROGRESS			ROADMAP TO OUR GOAL			KEY RISKS	MITIGATIONS
FOCUS AREA	**PRIORITIES**	FY18 (last year)	FY19 (this year)	FY19 Progress	FY20 (next year)	FY25 (five years)	FY30 (ten years)		
Reduce	Reduce carbon emissions by 32% or 12,742 tonnes of CO_2 by 2030 (from 2015 baseline)	3.4% year on year increase	4% year on year reduction[1]	• On track to convert 30% of our light commercial fleet to Electric Vehicles by end of 2019 • Our 24 Electric Vehicle chargers are available free to our customers.	Programme still developing	20% reduction from 2015	32% reduction from 2015	• Carbon emissions increase due to business growth or efficiency limits • Financial costs of reduction become prohibitive • Ability to control emissions from logistics networks.	• Focus on active emission and reduction initiatives • Make the financial impact of emissions visible in our cost of doing business (CODB) • Influence our logistics partners.
	Divert 85% of our operational waste by 2022		78% diverted this year	• Disposed of 2,652 tonnes of waste to landfill, a reduction of 25% year on year, thanks to our waste diversion initiatives.	80% diverted	85% diverted	ongoing improvement	• Reduction offset by business growth • Downstream recycling ineffective or unavailable (e.g. soft plastics).	• Maintain a focus on improvements • Partner with business and government to take a long-term New Zealand recycling view.
	Reduce our packaging materials	Reduction plans commenced		• Developing new sustainable packaging guidelines.	Internal supply chain focus	Consumer packaging focus	100% recyclable packaging	• Limited buying power to influence factory re-tooling at point of manufacture.	• Partner with international retailers and innovate with manufacturers • Review the impact of non-sustainable packaging on our cost of goods sold.
Offset[2]	Regeneration of land to offset 65% of our carbon emissions by 2025			• The programme is developing against announced change in the Government regulations of voluntary domestic emissions offset.	Investment phase	Yield phase	65% of emissions offset this way	• Insufficient land available for domestic offset regeneration activity • Misalignment with emerging legislative, regulatory frameworks.	• Consider alternative domestic strategies for emission offset • Liaise with stakeholders to influence policy direction.
	Buying international Gold Standard carbon credits		FY18 emissions 100% offset[3]	• Purchased 41,000 international Gold Standard carbon credits. • Became the third retailer in the world and largest company in NZ to be certified carbon neutral.	FY19 emissions 100% offset		35% of emissions offset this way	• Market volatility for international Gold Standard carbon credits driven by global forces • Provenance of credits undermined.	• Keep abreast of hedging/risk management developments • Ensure Gold Standard accreditation has valid third-party attestation.
Enhance	Reassess our raw materials			• Developing an end to end sustainable sourcing roadmap to deliver measurable improvements to our product offering. • We only sourced paper from sustainable wood sources, and from March 2019 all products we stock are either without Palm Oil or certified as containing sustainably sourced Palm Oil.	Programme is still developing		Sustainable sourcing programme in place	• Incompatible messages to suppliers, better quality, lower price. • Volume of available products insufficient for consumer demand	• Accept the total life-cycle cost in decision making, not just product preparation costs, to assist decision making. • Take more design in-house and open up different price/value combinations for customers
	Source responsibly			• 100% of our private label manufacturing sites are required to meet our ethical sourcing standards[4].				• International attestation and transparency up the supply chain.	• Continue to elevate our ethical auditing practice.

Key initiatives

Reduce
Across the Group, we have a mature programme of over 25 specific energy efficiency and emissions reduction initiatives. Some of these have been running for several years, for example, the replacement of fluorescent lighting in-store with energy-efficient LED lighting. Supporting these initiatives, we have incorporated energy efficiency principles into our procurement practices, and engage widely with stakeholders to share knowledge and adopt approaches that other industries and companies are having success with.

Offset
The offset element of our strategy is relatively recent, although we have been exploring options for effective offset for the past two years. Given the emergent nature of the Emissions Trading Scheme, Zero Carbon Bill legislation and uncertainty relating to the carbon credit trading, we have delayed the finalisation of our domestic offset strategy.

Consequently we are developing our own approach to offset 65% of our emissions by 2025 and provide other benefits such as native forest regeneration, biodiversity and local community benefits.

Enhance
We have made some good progress on specific programmes in this area, particularly the work around packaging that we generate as a business, such as online order fulfilment. We continue to improve in that area, and our next focus is on packaging that our upstream suppliers create, not only for shipping purposes but also product packaging. We are currently developing a sustainable packaging policy. Our other focus for FY20 will be on accelerating the development of product ranges with stronger environmental attributes so that the core product itself is more sustainably produced, consumed and ultimately recycled.

Materiality

Achieving tangible sustainability benefits for our stakeholders is important to us. Consequently, we are prepared to over-invest in reaching sustainable outcomes beyond those programmes that can be justified on purely economic grounds. We take a long-term view for considering such investments, albeit many of the underlying technologies and market structures are emergent, which gives rise to significant uncertainty in predicting project benefits. We recognise our opportunity in New Zealand to lead and role model behaviours in this area, and see our sustainability credentials as a material element of our reputational and brand assets. Achievement of our stated targets is a minimum performance threshold for us. Our KPIs against our stated strategies have been set with that in mind.

1 New Zealand CEMARS® certification

2 To offset our emissions, we have selected Clean Development Mechanism projects that generate Gold Standard carbon credits in regions where our business has operations – India, Bangladesh, China. These projects deliver social and community co-benefits satisfying eight of the United Nations' Sustainable Development Goals, (SGDs 1, 3, 5, 7, 8, 9, 13, 15).

3 CarboNZeroCert™

4 The Warehouse Group Ethical Sourcing Policy 2019

Significance

Sustainability to The Warehouse Group is not just a buzzword or a compliance activity, it is a central part of our values as a business and is embedded into our business strategies, and has been for many years (the Group began sustainability reporting in 2001).

As a reputable New Zealand business
From a social licence to operate perspective, stakeholders are demanding more transparency from business. The impacts of doing business on the immediate environment, both upstream and downstream, are important to be able to clearly communicate on.

The Group has a comprehensive programme spanning long standing activities such as energy efficiency, plastic reduction and recycling, through to new initiatives across our Reduce, Offset and Enhance framework.

For our customers
Making positive environmental choices should not be only available to the economically privileged. It is a reality that these choices today often come with a premium price tag for consumers – be they Electric Vehicles, sustainably generated produce, or clothing and general merchandise.

Our aspiration and responsibility is to enable all customers, including those who are value conscious or economically disadvantaged, to still be able to make sustainable choices.

We take this seriously. Our emissions reporting follows the CarboNZeroCert™ and CEMARS (Certified Emissions Measurement And Reduction Scheme) programmes. These two certifications ensure accurate and consistent carbon measurement, reduction and neutrality claims. Our reduction targets are aligned with the Climate Leaders Coalition commitments, which follow the current Paris Agreement reduction guidelines, and are consistent with keeping temperature increase to no more than two degrees Celsius based on pre-industrial times. The Group's emissions baseline year is 2015. As emerging international standards develop we will look to align our reporting and audit activities with best practice. Our organisation is certified in accordance with ISO 14064-1:2006 or PAS 2050:2011.

Future focus areas

Our sustainability strategies continue to evolve. Key focus areas continue to include:
- Accelerating the deployment of our Electric Vehicle fleet
- Reducing carbon emissions throughout our operations
- Minimising the plastic packaging and plastic waste generated by our private label offering
- Developing a robust sustainable sourcing capability with measurable improvements on ingredients certification and recyclability
- Helping our customers live more sustainable lives by offering them new post consumer waste recycling solutions and price valued sustainable product choices.

FINANCIAL CAPITAL

OUR GOAL: Ensure efficient utilisation of financial capital to compete and enable growth

FOCUS AREA	PRIORITIES	ACTUAL PROGRESS FY18 (last year)	FY19 (this year)	FY19 Progress	ROADMAP TO OUR GOAL FY20 (next year)	FY21	FY22+	KEY RISKS	MITIGATIONS
Financial resilience	Maintain financial flexibility through strong capital management	●	●	• Reduced gearing from 25.3% in FY18 to 13.6% in FY19 reflects working capital focus and lower capital expenditure due to increased capital allocation discipline • Access to committed bank debt facilities of $180m (undrawn at balance date) in addition to a $50m seasonal credit facility • Headroom provides ability to invest for growth above maintenance capital expenditure.	●	● Gearing levels not greater than 30%	●	• Like many New Zealand businesses, the Group is impacted by the performance of the New Zealand economy and indirectly the economic performance of New Zealand's major trading partners. Economic downturns may result in a deterioration of financial performance. • Offshore retailers may enter or increase existing footprint in New Zealand, altering the retail sector's competitive landscape and creating direct business competition.	• The Group's established New Zealand brands and diversified product offering can alleviate performance pressure from market downturns • Maintain access to diverse and quality sources of capital • Tightly manage our property portfolio to balance location security with flexibility to manage individual store performance. • Maintain our unparalleled footprint in the New Zealand non-food market across physical and online channels • Remain dedicated to providing the best retail experience for our customers • Continue to create and develop appealing and new ways to shop, such as TheMarket.
Total Shareholder Return	Reward shareholders with a consistently strong return on investment	◕	●	• Strong capital growth in the share price over the course of FY19 of 12.8% (FY18: -4.2%)[1] • Total Shareholder Return (inclusive of dividend) of 20.2% (FY18: 3.3%)[2] • Dividend policy of 75% to 85% of adjusted Net Profit After Tax • Return on Funds Employed of 23.5% (FY18: 16.9%)[3].	●	● Target 17%+ Return on Funds Employed	●	• Downturn in international and domestic financial markets may impact on the share price of The Warehouse Group.	• Develop trust with shareholders through delivering a high level of financial reporting and transparency • Maintain our commitment to consistently deliver value to our shareholders through a balance of dividends and capital growth.
Allocation of capital	Optimally invest in our business to retain relevance in a dynamic retail landscape	◐	◐	• Greater discipline around our capital expenditure in FY19 • The recently established Investment Review Committee assesses each business case and applies internal hurdle rates to ensure propositions 'stack up' from a financial perspective • Reduction in capital expenditure from 121% capex/depreciation in FY18 to 104% in FY19 due to focus on transformation and development of strategic initiatives.	●	● Targeting increased proportion of capital spend on growth initiatives	●	• Erosion of the asset base from under-investment due to deferral of spend or lack of strategic direction • Under-investment in growth initiatives that are core to delivering exceptional customer retail experiences. • Underperformance of investments relative to initial expectations.	• Refine our maintenance capital expenditure programme to ensure our infrastructure and customer channels (physical and online) meet or exceed customer expectations. • Use our investment review process to test the robustness of investments from an operational, strategic and financial perspective.
Access to capital	Maintain access to diverse capital sources	●	●	• The Group maintains three primary sources of capital in operating cash flow, debt and equity • Operating cash flow has significantly improved in FY19 due to working capital initiatives • Access to debt is through multi bank bilaterals and an NZX listed bond • Market capitalisation increased from $704m in FY18 to $794m in FY19.	●	● Maintain diversity of funding sources	●	• Tightening of credit markets and/or local banking regulations and downturn in equity market performance due to local and/or global economic factors causes a rationing of capital.	• Retain our banking relationships and headroom in excess of immediate needs. Supplement our bank funding with an NZX listed bond • NZX listed for nearly 25 years with a founding shareholder that has maintained a controlling stake • Continue our focus on working capital control and conversion of earnings into operating cash flow.

Key initiatives

In FY19, inventory management and improved supplier terms were a key focus of our transformation initiatives. In line with comments made throughout the financial year, we have begun to realise some of the benefit from these undertakings with a meaningful reduction in working capital. Consequently, the business has generated sufficient free cash flow over the course of the year to increase the dividend paid to shareholders to 17 cents per share, while repaying $63.7m of bank debt and funding capital expenditure of $62.1m. The current low level of gearing is helping to build capacity in advance of expected future investment in planned transformation and growth initiatives.

Increased discipline around the allocation of capital has resulted in capital spend this year below guidance.

There were also transformation initiatives that were originally planned to land in FY19 which are now expected to occur in the first half of FY20. Of the capital expenditure, 39% was on stores and distribution centres, 40% on information systems and digital initiatives and 21% on logistics. Investment in a warehouse management system drove the proportion of capital spent on logistics higher than anticipated, the first phase of which has delivered improvement in eCommerce fulfilment metrics. For the purposes of capital planning, we are assuming to have several years of capital spend in the $100m to $120m range. In addition to lifting our capital expenditure versus depreciation, we will be looking to increase our percentage of growth capital spend as we start to execute our growth aspirations.

1 Capital growth calculated as close price at Financial Year end / open price at the start of the Financial Year.

2 Simple Total Shareholder Return calculated as (close price at Financial Year end + dividends paid to shareholders during the Financial Year)/ open price at the start of the Financial Year.

3 Return on Funds Employed calculated as Operating Profit from Continuing Operations as a percentage of average Funds Employed.

Significance

Financial capital is an enabler that allows the Group to execute on the various initiatives we identify as important for the long-term sustainability of the Group and development of its capital base (financial and non-financial). Current focuses for the Group are completing our detailed transformation plans as well as investing in growth initiatives. The transformation plans are, however, not only associated with financial performance. We are investing in areas of the business where goals are linked to non-financial measures but the ability to develop, implement and achieve them is dependent on the financial resources of the Group. Financial capital is therefore not only about financial results, it is also about delivering results for the betterment of the Group and our stakeholders.

Materiality

'Here for good' is a value within the Group that displays our commitment to our people and our planet and delivering great value to customers with our products. In order to make-good on that commitment, the Group needs to also have a robust financial capital base. The Group has been focused on achieving a strong balance sheet that provides capital headroom to weather potential downturns and fund investment in value-enhancing initiatives and strategies. Financial discipline is of utmost importance to us and is core to making sure that we are here for good and for New Zealanders.

Future focus areas

Our focus in FY20 and beyond will be to:

- Continue with the transformation process through:
  - Investing capital in line with the strategy and delivering shareholder value
  - Focusing on the retail fundamentals to grow the top line while assessing areas to be more cost efficient
- Continue our focus on financial risk management.