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).

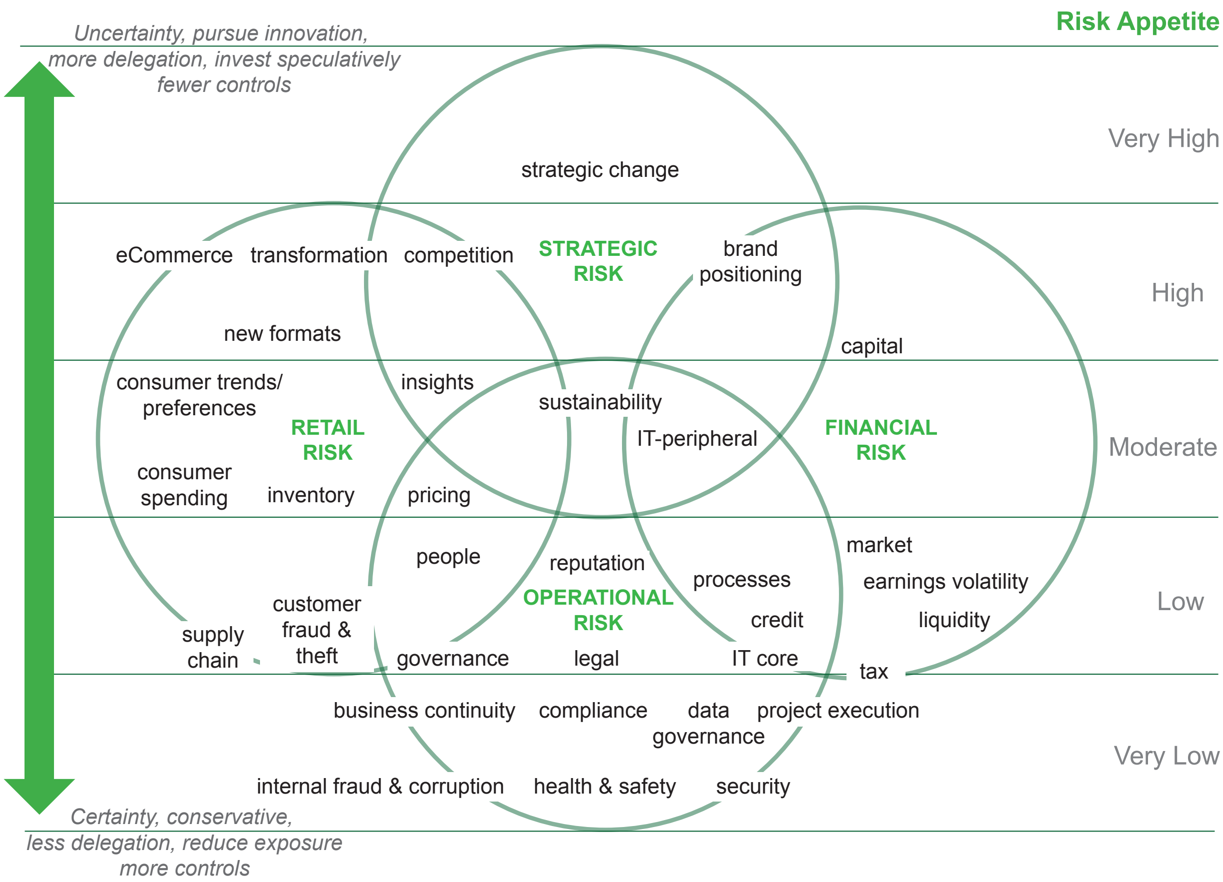
Risks arising from the Group's responsibilities can be significant and these risks are managed through detailed processes that emphasise the importance of integrity, maintaining high quality team members and stakeholder accountability.

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.



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