Helping Kiwis live better every day

The Warehouse Group
Integrated Annual Report 2020

CONTENTS

THESAURUS

2020 AT A GLANCE

Group sales
$3.2B
up 3.3% on last year[1]

Reported NPAT
$44.5M
down 32% on last year[2]

$80.7M
Adjusted NPAT
up 9.0% on last year[3]

$168.1M
Net cash at year-end

103.2%
growth in Click & Collect sales

Online sales made up
11.4%
of total Group sales

+96%
growth in The Warehouse app sales

55.2%
growth in online sales

2.3M
customer store visits per week[4]

STORES CLOSED

7 WEEKS

Loss in sales during the first lockdown

$265M

67% decrease in sales

circa

11,000

Employees received full wages and salaries

1.25M

online orders placed during alert levels 4-2

105

stores operated as fulfilment centres[5]

Over **6,000**

products have sustainability attributes or packaging accounting for over $100 million annual sales

we have diverted

77% of operational waste from landfills

over

$3.9M

fundraised for New Zealand charities and communities in FY20

1. FY20 had 53 weeks compared to 52 weeks in FY19. On a 52 week like-for-like basis, FY20 Group Sales saw an increase of 1.5% compared to FY19.
2 Excluding the receipt of the wage subsidy received, the Reported NPAT would have been a loss of $4.3 million.
3. Adjusted NPAT is a non-GAAP measure. A reconciliation between Adjusted and Statutory NPAT is located in note 5 of the financial statements (page 59)
4. Excluding weeks impacted by store closures during COVID-19 lockdown periods.
5. 30 The Warehouse and Warehouse Stationery stores and 75 Noel Leeming stores

CHAIR'S REP

Protecting our future in uncertain times
During a period of uncertainty that has tested New Zealanders' courage and determination, The Warehouse Group demonstrated its resilience by holding true to its course.

The financial year just completed posed challenges and complexity we could never have anticipated, testing our ability to comprehend changes, harness and deploy resources, and execute successfully in a dynamic and volatile environment.

I want to start my report to shareholders this year by paying tribute to the exemplary leadership demonstrated by Group Chief Executive Nick Grayston and his executive team, all our leaders across the business and our team members around the country who have continued, in this extraordinary year, to ensure we serve our customers and help Kiwis live better every day.

The Group's FY20 results provide evidence of the gains to be achieved by putting our customers at the centre of everything we do. We have not deviated from our strategy. Despite unprecedented disruption we have been able to build value for our customers, remain flexible in an unpredictable trading environment and weather the immediate effects of COVID-19 in a way that would not have been possible a few years ago.

"We are now on the cusp of the next stage in our evolution: becoming a business that is Agile, with the discipline, insights and confidence to adapt, focus and deliver even in times of global upheaval and economic contraction."

Joan Withers
Chair, The Warehouse Group

We are saying goodbye to old ways of doing things and pushing forward with transforming the way we work. We continue to apply a laser focus to fixing our retail fundamentals and are embracing opportunities to build a digital future – and we are intensifying these efforts.

We are now on the cusp of the next stage in our evolution: becoming a business that is Agile, with the discipline, insights and confidence to adapt, focus and deliver even in times of global upheaval and economic contraction.

While we have been laying the foundations for this move for a long time, the value of the Group's transformation has been put to the test in ways no one could have contemplated in the year under review.

The results
Our adjusted Net Profit After Tax (NPAT) result of $80.7m was a 9.0% increase on last year, with our reported NPAT being $44.5m. Adjusted NPAT excludes $36.3m in unusual items. This result is a testament to the underlying strength of our brands and operating performance. It is remarkable that the Group was able to deliver this result during a year in which our stores' doors were shuttered for seven weeks during New Zealand's initial lockdown in response to COVID-19.

Our Group retail sales over the course of FY20 provide a snapshot of the disruption inflicted by the global pandemic. We saw good momentum in the first half. We were on track and confident that our transformation efforts were delivering measurable and sustainable gains.

Our confidence was tested in the second half with the impact of COVID-19 lockdown trading restrictions which required an initial period of complete closure, followed by a gradual increase in online sales activity and the eventual reopening of all our stores on 14 May. This disruption had a significant impact on business performance in the third quarter: retail sales were down $128m or 17.9%.

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Consumers returned to our stores in force in the final quarter, lifting total retail sales for the year to $3.2b.

Reported net profit attributable to shareholders for the year was $44.5m - this compares to $65.4m last year.

On 26 March 2020, the Board considered the circumstances and uncertainty around the impact of COVID-19, and decided that it was in the best interest of the company to cancel the previously declared interim dividend for FY20 of 10 cents, which was due to have been paid on 17 April 2020.

Similarly, the Board determined not to pay a final dividend given the continued uncertainty around economic activity and our trading outlook.

Staying the same is not an option in retail. For more than three years, we have been dedicated to transforming our business so we can become New Zealand's most sustainable, convenient and customer-first company. An enormous amount of work has gone into that, and it has translated into a credible financial performance during a time of huge challenges and complexity. We are committed to leveraging the investment and organisational change we have made to ensure we are here for the next 100 years.

One important outcome of fixing our retail fundamentals has been our strengthened ability to capture, manage and utilise data. We are uniquely placed given the breadth and depth of our operations across the country. The insights the data provides are invaluable and innumerable.

We are now accessing customer insights that enable us to pinpoint shifting patterns of shopping behaviour so the business can respond with precision: decisions are well-informed, taken quickly and implemented at pace.

We can also more accurately and speedily track initiatives we implement and the Board and Executive have clear line of sight and maintain scrutiny to ensure investments are adding value.

COVID-19

The scale of the challenges presented by the arrival of COVID-19 in New Zealand cannot be overstated.

Our people at every level in the business had to rapidly adjust and do things differently. We were already well down the path of change. COVID-19 has not altered our direction, but it has accelerated the pace at which we travelled. Despite all the disruption, we have flipped to our new Agile way of working only one month later than originally planned. This has been a remarkable feat in the circumstances which demonstrates the increasingly important ability to pivot quickly to changing circumstances.

One of our early actions was to ensure our people continued to receive their pay during lockdown. The Group was granted the initial Government Wage Subsidy and claimed a total of $67.8m (after tax the total received was $48.8m). The subsidy was crucial to the Group maintaining its workforce through a time when we were closed to customers and faced significant sales uncertainty. This subsidy was paid in full to our team members who received 100% of their pay during this period. On average the wage subsidy equated to around 55% of our normal wage and salary expense over the period to which the subsidy applied.

As the nation prepared to enter alert level 4, the Government focused first and foremost on securing the nation's health and we completely supported that approach. We were, however, disappointed that the Group had to close its stores during alert levels 4 and 3. Senior officials and politicians engaged with the Group and we were receiving advice from them as New Zealand moved through the COVID-19 alert levels.

We hope we are through the worst of the pandemic in New Zealand. However, events in August showed that even with strict controls at our border, the virus can penetrate and spread in our communities. It is clear that the economic implications will reverberate here for years to come. All businesses need to react to the new and evolving reality and we are committed to weathering this storm and ensuring we can serve our customers through the channels that work for them.

What changed most potently during the COVID-19 crisis was the rapid escalation in online shopping.

After that initial period of complete closure, our brands moved to providing online sales of essential items during alert level 4 and then a full online range of products during alert level 3 for delivery or contactless Click & Collect.

Online sales ballooned and by the end of FY20 had increased by 55.2% on the prior year, representing 11.4% of total retail sales for the year.

COVID-19 has changed the way people work, engage socially and shop. We must continue to pay attention to what this means for our business.

We will keep adapting our business to meet the needs of this new normal for our customers. That means prioritising our resources to deliver in a retail environment that will continue to present challenges, as well as opportunities.

The successful launch of TheMarket.com in August 2019 is a case in point. It now offers over 2 million products and across more than 3500 brands and while it is still early days, its performance gives us confidence in the long-term value of this investment in the digital future.

The Board is delighted with the progress and the efforts of the team to launch and operate what is effectively a start-up during a period of such profound upheaval.

It has also been a year in which we have had to acknowledge that our systems and processes have sometimes let us down. During the run-up to Christmas, our Warehouse Management System (WMS) did not perform to expectations, and that caused frustration for our customers.

The performance glitches were regrettable and showed that we had yet to complete fixing our retail fundamentals. The executive leadership team took full responsibility for getting WMS back on track. Subsequently, the enhanced performance and metrics meant the business was in much better shape to respond to and manage the tsunami of online orders during the COVID-19 lockdown through to early June.

There remains further work to do, but we are heading in the right direction.

> **"While we are currently in a solid position, by making changes now in the way we organise ourselves and assist our customers, we will protect our future in very challenging times."**
>
> **Joan Withers**
> **Chair, The Warehouse Group**

Honouring our commitments

When we published our first Integrated Report last year, we described how we deploy our resources and manage our networks, expertise, relationships, environment and financial capital to create long-term sustainable value.

That commitment has not wavered, despite the challenges we faced during the second half because of COVID–19.

Initiatives include improving accessibility for people with disabilities, providing private-label period products for $1, partnering with IBM and schools to lift the digital skills of our future workforce through the P-TECH initiative, and increasing the range of products across our brands that have sustainable attributes – to name but a few. Further detail can be found on pages 42 and 43.

Capital management

Cancelling the interim dividend after it had been declared was a very unusual measure for any Board to take in New Zealand. However, it was the prudent course of action. Similarly our determination to not pay a final dividend was made after careful consideration of all the information available to us.

The ongoing transformation efforts and balance sheet initiatives during FY20 have reduced our debt levels significantly.

The Board is rigorous in its evaluation of the Group's capital structure. We work hard to ensure we are making appropriate investment in value-enhancing initiatives and we are also highly cognisant of our responsibility to our shareholders.

In March the Group increased its banking facilities by $150m, extending total banking facilities to $330m – allowing for the redemption of the Group's NZX listed bond of $125m on 15 June.

As at year-end, the Group is in a strong financial position with a cash balance of $168m, and therefore access to funds of $498m.

Board activity

Two of our long-standing Directors due to retire by rotation have confirmed that they will not seek re-election and will step down at the Group's Annual Shareholders' Meeting in November.

The Warehouse Founder Sir Stephen Tindall and Deputy Chair and Chair of the Audit and Risk Committee Keith Smith have served as Directors since 1982 and 1988 respectively.

The Board has been fortunate in having Sir Stephen and Keith contribute their significant experience and wisdom to the governance of the business during a period of ongoing change, increasing competition and major technological developments.

We have specific aknowledgement of Sir Stephen and Keith's service to The Warehouse board on pages 10 and 11. However, I would like to add my personal gratitude to them both for the enormous support and guidance they have given me over the years.

The Board welcomed non-executive Director Dean Hamilton to his first meeting in May 2020. Dean has significant CEO and financial markets experience and is a valuable addition to the Board. He will, if elected at the Annual Shareholders' Meeting, become the Chair of the Audit and Risk Committee following Keith's retirement.

Robbie Tindall has been nominated as a Director of the Group and will also stand for election at the Annual Shareholders' Meeting. Robbie was appointed as Sir Stephen's alternate in July 2011 and has represented him since Sir Stephen took leave of absence from the Board in October 2017.

A special call out to Julia Raue who chairs our Health, Safety and Wellbeing Committee. The work this year, in tandem with our Health and Safety team in the business, was of particular importance under the shadow of COVID–19.

During her first year in our Future Director programme, Renee Mateparae has made an excellent contribution. The knowledge Renee gained in her leadership role at Spark during the organisation's transition to Agile ways of working has been of particular value.

We have undertaken an independently facilitated, comprehensive Board performance review, canvassing Board behaviours and culture as well as individual directorial performance. Senior executives who interact with the Board provided input.

The review culminated with a facilitated workshop to share the findings and most importantly to commit to the actions we will take as a result of those.

The review should give shareholders confidence that the Board is committed to the highest standards of corporate governance. It also provides a focused opportunity to look at our skills mix and succession planning.

Looking ahead

The business' own insights show that in the wake of the first COVID–19 lockdown, six out of seven consumers are now looking to save money with 64% of customers consciously cutting their spending.

We anticipate significantly reduced retail demand as the full economic impact of COVID–19 is felt by consumers over the course of FY21.

In June 2020 the Group confirmed it would accelerate some of the changes already planned – including some store closures and operational changes – due to the uncertainty associated with COVID–19.

While we are currently in a solid position, by making changes now in the way we organise ourselves and assist our customers, we will protect our future in very challenging times.

As I said in my introduction, the contribution of Nick Grayston and his executive leadership team has been outstanding. My thanks on behalf of the Board to all those who have worked so hard during a year beset by the impacts of a pandemic that has touched every corner of our planet.

My sincere thanks, too, to the Board, which has gone above and beyond, engaging in frequent virtual meetings and discussions during the height of COVID–19 alert levels and providing unfailing support for the Group throughout the financial year.

To our shareholders, I want to offer our thanks for their continued support during a year when they had to manage the impacts on their personal and professional lives of immense change. The Board is confident the investment we have made in the last three years to position the Group will provide sustainable competitive advantage and long-term shareholder value.

Joan Withers – Chair

SIR STEPHEN TINDALL

Our Founder and Non-Executive Director

Sir Stephen is one of New Zealand's most well-known and highly respected businessmen, whose generosity and philanthropic efforts are widely acknowledged and admired.

New Zealand's retail landscape changed profoundly when Sir Stephen Tindall opened the first The Warehouse store in Takapuna in 1982. Reflecting the business' early mission statement – "Where people come first and quality is affordable" – products we now regard as necessities became available to New Zealanders at affordable prices.

For the first 2 or 3 years he traded out of a small warehouse-style building in Takapuna.

It was not long before the business expanded. In 1985 The Warehouse Limited started a new venture in Christchurch on a 50/50 joint venture partnership basis with H&J Smith Ltd, also trading under the the name 'The Warehouse' and the basis for the establishment of regional operations throughout New Zealand began with other joint venture partners.

Following the opening of the first purpose built hyperstore in Manukau in May 1992, it became clear that the business had outgrown the regional JV structure. In April 1993 The Warehouse Limited became one company to improve efficiency and coordination. When the company listed in November 1994, it was the only general merchandise retailer on the New Zealand Stock Exchange, with 53 stores across 38 cities and towns nationwide and was already one of New Zealand's leading retail companies.

Further innovation followed closely after listing including the implementation of a new computer system, TUI (Technology Used Intelligently) in 1995, still in use within the company, and in 1996 the additions of distribution centres in both the North and later in the South Islands equipped with the latest fully automated conveyor technology to streamline stock distribution processes. The Store Support Office in Northcote was also completed and opened in 1996, as well as a The Warehouse internet page created in December 1996, giving The Warehouse a presence on the worldwide web.

Sir Stephen frequently credits his parents' work ethic as a force that has motivated his business achievements. He has also been inspired by the entrepreneurs Warren Buffett and Microsoft founder Bill Gates for their philanthropy.

In 1994 Sir Stephen and his wife Lady Margaret Tindall established The Tindall Foundation, one of New Zealand's leading philanthropic foundations that has since donated more than $184 million to support Kiwi families, communities and the environment. The Foundation is committed to making a positive difference in Aotearoa, New Zealand by supporting initiatives that develop long-term social change and use innovation to deliver social impact.

Throughout The Warehouse Group's ongoing expansion, the business has stayed true to Sir Stephen's founding principle of putting the customer first. His insight, advice and counsel have been and will continue to be important to the business' executive team.

New Zealand's wider business community also gains the benefits of Sir Stephen's knowledge and generosity. In 1999 he founded K1W1, a family investment company, which has invested over $250m into more than 150 start-up and early stage businesses in biotech, software, clean tech, high tech, and environmental technologies.

He has sponsored Team New Zealand in contesting the America's Cup and as Chair of Team New Zealand was involved in winning the Cup in Bermuda and is now busy helping to prepare Auckland to host the Cup defence.

Sir Stephen chaired the Growth and Innovation Advisory Board, the Climate Change Leadership Forum from 2007 to 2009, and the Broadband Investment Forum from 2008 to 2009. He also chaired a section of the Job Summit Working Group in 2009, with a particular focus on Auckland, including an involvement co-funding the mayor's taskforce on jobs.

His inspirational leadership and commitment to fostering ingenuity and sustainable growth have garnered many awards and honours, including being appointed as an Officer of the New Zealand Order of Merit (ONZM) in 1997, which became Knight Companion of the New Zealand Order of Merit in 2009 and was then elevated to Knight Grand Companion in the 2019 New Year Honours. He was named Kiwibank New Zealander of the Year in 2015.

Sir Stephen is one of New Zealand's most well-known and highly respected businessmen. His ingenuity and entrepreneurship in founding The Warehouse Group and introducing affordable products in the 1980s set the foundation for the continual growth and diversification which remains a cornerstone of the Group's philosophy for continued success.

Sir Stephen has been on a leave of absence from the Board since October 2017, with Robbie Tindall representing Sir Stephen during this time. Sir Stephen will retire by rotation and will not seek re-election at the Group's Annual Shareholders' Meeting on 27 November 2020. Sir Stephen, The Tindall Foundation and various other family interests will continue to retain over 50% shareholding in the Group.

The Board and Management would like to take this opportunity to thank Sir Stephen and Lady Margaret for their many years of dedication to the Group and their continued support into the future.

KEITH SMITH

Deputy Chair, Chair of the Audit and Risk Committee

From its earliest days, Keith Smith has played a part in the successes of The Warehouse Group.

Not long after Sir Stephen opened his first store in 1982, Keith started providing accounting, tax and corporate advice, bringing to the business the benefits of an extensive financial background. His professional career has included being a senior partner in the accounting practice Spicer & Oppenheim which later became BDO Spicers, and serving as a president of the New Zealand Institute of Chartered Accountants.

After joining The Warehouse Group Board in 1988, Keith became the Chair following The Warehouse Group Limited's public listing on the New Zealand Stock Exchange in 1994. He served in that capacity until 2011 when he stepped down and became the Deputy Chair. In 2017, he became the Chair of the Audit and Risk Committee.

Keith's long-standing record of leadership as a director and advisor to companies covers a diverse range of industries, including the energy sector, rural services, printing, media and exporting. He maintains a vital presence on the boards of other listed companies, including Goodman New Zealand which he chairs. He is also a director of Mercury NZ Limited, Sky Network Television Limited, Healthcare Holdings Limited and several other private companies.

During a period of significant transformation at The Warehouse Group, Keith's extensive experience and financial expertise have been invaluable to the business as it has acquired and grown to a portfolio of six brands.

Keith has been a major asset to The Warehouse Group over his many years of service where he has provided enormous support, experience, financial expertise and wisdom to the whole Board and the Group. He will be greatly missed by all those who have worked with him.

Keith will retire by rotation and will not seek re-election at the Group's Annual Shareholders' Meeting on 27 November 2020.

The Board and Management would like to take this opportunity to thank Keith for his dedication and many years of service to the Group.

CEO'S REPORT

"At the time of our half-year announcement, our results demonstrated that we were on track with the implementation of our strategy and our far-reaching transformation programme."

Nick Grayston
CEO, The Warehouse Group

Strategy stress tested
The global cataclysm wrought by COVID–19 has stress-tested our strategy, our business and our people far beyond the levels anyone could have expected or desired. Obviously it has not been business as usual this year for anyone, anywhere in the world.

Relative to the experiences of those elsewhere we have been fortunate in New Zealand. Nevertheless, COVID–19's impact has made huge demands at every level of The Warehouse Group. Events during the final months of FY20 required that our teams work in new ways – whether it be store team members fulfilling online orders in-store or our Store Support Office teams supporting the customer engagement centre or working in our fulfilment centre.

Our experience in navigating the uncertainty and restrictions during New Zealand's initial response to the pandemic gave us even greater confidence that the Agile model at our Store Support Office will support the business with speed to market, collaboration, innovation and productivity.

After six months of operating frontrunner tribes to help us define optimal operating models, we moved fully to this way of working in late August. This will enable us to further increase our focus on New Zealanders' needs in a retail environment where the one real constant is the relentless pace of change.

Learning from adversity
At the time of our half-year announcement, our results demonstrated that we were on track with the implementation of our strategy and our far-reaching transformation programme.

We experienced some real challenges during Christmas, brought on in part by New Zealand's adoption of heavy discounting as early as Black Friday in November. Additionally, every six years, there is one less week between Black Friday and Christmas, which compresses the selling season and tends to have a profound effect on overall spending – 2019 was one of those years. We did, however, see a late wave of spending at the end of a shorter Christmas trading season which flowed into decent results in January.

Also, we experienced an operational challenge during this period: the self-inflicted wound we sustained from an initiative to centralise fulfilment functions for The Warehouse and Warehouse Stationery and deploy a new Warehouse Management System (WMS).

With the benefit of hindsight, we now know that insufficient user input and early-stage support in the planning and development phase, underpinned by poor quality of data, data architecture and governance, contributed to the issues relating to the WMS project. We regret that this happened and the inconvenience that it caused to our customers.

But we have learnt a great deal from the experience, which underscored that the old-fashioned siloed methods of execution and hierarchical structures are no longer fit for purpose. It also highlighted that 25 years of under-investment in information systems and physical infrastructure is a problem we must address in order to become a nimble, customer-centric company.

We set in place a very purposeful recovery plan. In addition, one of our experienced senior executives - Pejman Okhovat - is now in charge of the integrated supply chain.

We had already planned to shift to an Agile operating model and the WMS experience further validated its introduction. These learnings are all the more important given the huge slate of systems modernisation we have ahead of us.

Our response to the WMS challenge also meant we were much better placed when COVID–19 hit.

The closure of our physical stores and the subsequent permission from the Government to sell essentials online proved to be a quantum leap for our online sales, with 48% of our online purchasers during this period being new eCommerce customers.

We saw exponential growth in eCommerce in just two months from April through to June. While not all this growth has survived lockdown, much of it has and this behaviour shift will have profound effects on legacy retailers, which necessitates the acceleration of our transformation.

The institution of social distancing meant we could only deploy 60% of our people in the fulfilment centre – and that could have crashed the business totally.

However, the benefit of becoming much more Agile was that very quickly we opened up 30 The Warehouse and Warehouse Stationery stores as online fulfilment centres, which took a lot of the pressure off. We also quickly moved to open all 75 Noel Leeming stores as fulfilment centres due to demand.

It was by no means perfect. When stores reopened, there were issues around contactless Click & Collect because we weren't designed to satisfy the volumes ordered, exacerbated by the problems experienced by our delivery service providers.

Yet, by and large, we coped. That would not have been the case in the last months of calendar year 2019. It's a real learning from adversity, and also points into the health of the future.

We still have in front of us a major task in terms of information system and physical infrastructure upgrades. We have an integrated systems strategy and are well placed to begin rolling out improvements. For example, introducing a new finance and inventory system in The Warehouse will enable real-time visibility of inventory that will have a customer-facing benefit.

COVID–19: Agile adaptation
In the days immediately prior to New Zealand's initial COVID–19 lockdown, the Group faced considerable uncertainty.

We had to pivot quickly after unexpectedly being told we could not operate our stores or online services during alert levels 4 and 3.

Subsequently it became clear that people needed access to our products so they too could make the necessary adjustments in their work and home lives.

We worked very closely with the Ministry of Business, Innovation and Employment (MBIE), and other government officials. We took great care to do exactly what they asked us to do. We were a participant in National Emergency Management Agency (NEMA), the Police's retail-focused COVID–19 response team, and worked with other retailers and industry in the lead up to and during lockdown.

We were able to provide an important service to New Zealand by supplying essential goods online through The Warehouse, Warehouse Stationery and Noel Leeming.

Our earlier decision to diversify our supply chain by building a direct sourcing business with relationships into factories in China, India and Bangladesh stood us in good stead in terms of continuity of product supply.

In the early stages of New Zealand's COVID–19 response, we were fortunate to have front loaded deliveries from China by early January to account for Chinese New Year. That meant we had three months' insulation in the system. In the end, China reopened fairly quickly, so the impact on our business was more influenced by decisions as to what and how much in terms of orders to cancel in ambiguous circumstances around the impact of COVID–19.

In South Asia, many factories have been working through lockdown because their workers need to continue earning. In an effort to do the right thing, we have tried to keep our contracts going and have also taken additional steps to support our partners. These include distributing COVID–19 safe resource kits prepared by our industry partners to supplier factories. In the case of India, Bangladesh, and Pakistan, we have contacted factories directly to confirm and track their COVID-19 management practices, and to ensure that they were meeting all payment obligations to their workforces and operating in accordance with any government guidelines.

Delivering value across our brands

Revenue for The Warehouse in FY20 increased marginally to $1.7b, with gross margin down 70 basis points.

It was pleasing to see the continued increases in quality and value perception, and to reap the benefits of greater acceptance of our Every Day Low Prices strategy, which also drove further productivity improvements.

We are very proud of the resilience that our people demonstrated in coping with extremely uncertain circumstances as a result of COVID-19 and the work the fulfilment team has done to meet the surge in online demand.

Noel Leeming had another record-breaking year – exceeding $1b revenue for the first time, with operating profit up 20.8% to $46m this year. Operating margins also improved 50 basis points from 4.1% in FY19 to 4.6% this year.

The continued execution of services and growth into the commercial business gives us a platform to build into B2B. Services delivered significant growth with a 19% increase year-on-year. Other milestones included the successful launch of our new Protection service plans; the growth of Consultation which delivered over $2.2m this year; and the introduction of our free Tech Solutions helpdesk, which has helped over 18,000 customers.

The successful introduction in November of our new digital team member – Nola – at our Westfield Newmarket store marked a further leap in innovation. Nola is one of the first human-like interfaces backed by artificial intelligence in a New Zealand retail store, and is positioned to help shoppers navigate the store and answer questions they may have. She is now working in our contact centre helping customers there too.

We have done some hard yards in Torpedo7. Revenue was up 10.7% to $191m on last year but there was an operating loss of ($14.7m). The loss was caused by continued correction of inventory profiles and the impact of not being able to trade during lockdown and resulting inventory imbalances.

While we are not there yet on the results, Torpedo7 is expected to deliver. We are confident that we are making progress towards profitability and will see a quantum leap in performance in FY21.

The recruitment of Simon West, who became Torpedo7's CEO in August 2019, has provided the steady, experienced and dedicated leadership required to lift the brand's performance. We are starting to see evidence of progress with changes to merchandising, the product mix, improved skill sets in stores, and steps taken to grow distribution and fulfilment capabilities.

Warehouse Stationery continued to build on the momentum of its positive performance in FY19. Retail sales were up 0.1% with 50 basis points lift in gross margin. Operating profit also increased from $16.7m in FY19 to $22.8m this year.

There were seven further integrations of The Warehouse and Warehouse Stationery stores, taking the total number to 17. These Red and Blue store integrations are delivering the performance benefits we had sought, and we continue to assess further opportunities to bring stores together across our portfolio.

TheMarket.com more than proved its reason for being during COVID-19 alert levels 4 and 3. It was an extraordinary achievement by the team to go live in August last year, and to do so under budget. We have seen good growth, with the number of merchants choosing to participate on TheMarket.com platform reaching over 650 by the end of July 2020.

We have learnt a great deal about the drivers and cost metrics of engagement and acquisition. The focus now is to grow TheMarket.com's offerings further and keep leveraging Group strengths to benefit customers. While we know there is still a lot of work to be done, TheMarket.com has had a very good foundational year and is meeting planned performance targets.

As stated earlier, Group online sales accelerated well beyond expectations due to the impact of rapid changes to our customers' shopping options and habits during the COVID-19 lockdown.

We knew before COVID-19 that our digital strategy and expanded online offerings were a critical component of our future growth. This year's results validate continued investment in developing our online channels.

Here for good

In December 2019, the Group's Chief Sustainability Officer David Benattar and I attended COP25 (The Conference of the Parties – the supreme decision-making body of the United Nations Framework Convention on Climate Change) in Madrid. As part of the New Zealand delegation led by Minister for the Environment James Shaw, we participated in panel discussions and meetings between government, non-government organisations (NGOs), scientists and business on the collective global effort to combat climate change.

After moving to become a carbon neutral business last year, we were honoured to attend and share our perspectives.

While the conference itself ultimately had a disappointing result, with no global agreement to Article 6 which regulates the international trade of carbon emission credits, the summit was full of valuable insights.

In particular, we saw how the engagement of the private sector is essential to addressing the climate crisis, in ways that governments and NGOs cannot do. Companies are stepping up globally and taking action on sustainability because they think it is the right thing to do and because the customer is requiring it. They are moving faster than governments which have, so far, failed to deliver the mechanisms for achieving the Paris Agreement commitments.

COVID-19 will not slow down our commitment to increasing the element of sustainable product quality and materials, packaging and consumption that we supply.

We have dedicated our efforts to marrying sustainable attributes with affordability so customers do not have to pay more. We now have over 6,000 products with sustainable attributes in our stores. We are doing much more to tell our customers about those products, having just launched our 'Sustainable and Affordable' campaign to educate our customers around the fact that a value-based offering doesn't necessarily require compromise, in terms of sustainability.

The Group takes seriously its role in helping to upskill New Zealand's workforce. For the hundreds of young people participating in our youth and gateway programmes, like P-TECH and Red/Blue Shirts in School.

We worked with our partners to move swiftly to provide laptops for students needing them, and to support curricula and programme redesign so that learning could be moved online. In-store training for our Red Shirts in Communities programme with the Ministry of Social Development was paused as a result of COVID-19 restrictions.

We have an increasing focus on equality and diversity. In July 2020 we joined other major businesses which signed the 'NZ Retailers Against Racism Pledge' to confirm an ongoing commitment to address racism proactively, along with a refusal to tolerate other forms of abuse at work.

Approximately one in four New Zealanders lives with a physical, sensory or learning disability, mental health or other challenges. We partnered with Accessibility Tick, a pan-disability provider, to make the Group's workplaces more accessible and inclusive for our team members and customers with disabilities. In December 2019, we became the first retailer to achieve the Accessibility Tick.

In September, we announced our Retail Wage commitment, entitling employees at The Warehouse with at least a year's worth of service to receive a pay increase to $21.15 per hour in 2020.

We have also started to trial a new programme aimed at rewarding our customers and providing them a way to support the causes they are passionate about. Called 'Giveit', the programme enables customers to access exclusive offers and rewards, via The Warehouse app and through scanning a QR code in store. Every time a customer shops with us through their Giveit account, The Warehouse gives back to a local cause of their choice.

Responding to an uncertain trading environment
COVID–19 caused some major customer changes – particularly the shift to online. Although peak online numbers dropped after we reopened our stores, they remain around double the level prior to the COVID–19 lockdown. It is a change that looks set to stay.

The sustained shift online causes some specific challenges to our business model and raises questions about the need for quite so many physical store locations.

Good retailers should be assessing the suitability of their network continuously. Value for money has never been more important to our customers. We can deliver that if we manage our costs and run our business efficiently.

That is why we have accelerated some changes around in-store operations and the location of some of our stores in response to our uncertain trading environment.

It is not just about closing stores. It's about evolving our store network – and that has seen us open new stores at Lunn Ave in Auckland, Westfield in Newmarket, and Northlink in Christchurch.

We have also confirmed and signalled the closure of several stores including The Warehouse Birkenhead (Auckland), Dunedin, Johnsonville (Wellington), Whangaparāoa, and Noel Leeming Takapuna (Auckland), the Palms and Papanui (Christchurch), Tokoroa, Henderson and St Lukes Clearance Centres and Warehouse Stationery Te Awamutu. Our Dunedin Central store will become a 'dark store' to serve our customers' online orders.

The result of all these changes could see a reduction of approximately 320 full-time equivalent roles across the business.

We have made these changes to weather the effects of the varying economic conditions and customer habits with strength, and help us to continue to be there for our team of more than 11,000 as well as for our customers and communities. Very specifically, the growth of online, both customer direct and via Click & Collect as well as changing shopping times requires us to redeploy our workforce, in many cases altering their rosters.

During the year we welcomed some talented new people to our executive leadership team.

"We have dedicated our efforts to marrying sustainable attributes with affordability so customers do not have to pay more to do the right thing."

Nick Grayston
CEO, The Warehouse Group

Edwin Gear, our Chief Information Officer, brings a wealth of retail information services experience. Most recently, he was the Chief Information Officer of Metcash Australia, and has held prior roles in New Zealand with Mitre10 and Foodstuffs. Alongside this, Edwin has extensive operational and broader business experience together with a strong track record of delivering change and building and leading teams.

Richard Parker stepped up to become Acting Chief Human Resources Officer, following Evelyn Ross' resignation from the role in January 2020, and has now been appointed in this role effective 31 August 2020. Previously, Richard held a number of senior human resources and corporate legal roles at some of New Zealand's leading organisations including Fletcher Challenge, Telecom (now Spark) and TVNZ.

There have been two other departures from the team. Mark Yeoman, who became Chief Operating Officer in April 2018, played a key role in the transformation of the business over the past five years. Mark left the business in May 2020.

Post-balance date, our Chief Logistics Officer Chris Foord also departed. Chris had led all aspects of our logistics and fulfilment across the Group, including The Warehouse, Warehouse Stationery, Torpedo7 and Noel Leeming.

Evelyn Ross, Chief People Officer, also left the company during the financial year.

We wish Mark, Chris and Evelyn all the best in their future careers.

Maintaining momentum

As we look ahead to FY21, we cannot afford complacency.

We saw a significant lift in sales after our stores reopened. However, the forecasts for New Zealand's economy indicate that there is a significant contraction ahead. While headline unemployment data in early August was considerably better than expected, those not participating in the labour force rose by 37,000 in the June quarter. By the end of July, around 21,000 people were receiving the COVID–19 Income Relief Payment. There is much uncertainty about the flow-on effects when this subsidy ends.

Consumer confidence remains below the historical average. We do not expect the recent wave of sales optimism to continue, particularly in light of the re-emergence of community transmission of COVID–19 in August and the potential for more lockdowns or disruption to occur.

The Group is taking a conservative approach and expects the coming year to be tough.

In spite of the challenging business environment, we will continue to make the changes necessary to protect and grow our brands. We will invest in our key infrastructure. We will refine our operating model further as we embrace the principles of agility. And we will continue to eliminate inefficiencies that impact on our productivity.

There is more work to be done.

Nick Grayston – CEO

OUR PURPOSE

Helping Kiwis live better every day

Every day, we're living our purpose by transforming our business to exceed our customers' expectations and have a positive impact on our communities.

OUR VISION

is to build New Zealand's most sustainable, convenient and customer-first company.

This means we will be profitable, and at the same time take responsibility for our environmental and community impact. We believe that sustainable business is good for our company, our customers, as well as the communities in which we operate.

Being convenient means that more New Zealanders will gladly choose to begin their shopping journey with one of The Warehouse Group's brands. In a world of abundant choices, convenience has become the most important way of winning customers' hearts. We will achieve this by providing products and services when and where they are needed, with ease of access and a choice of ways to pay and collect.

We understand that for us to win in convenience, we must put the customer first and mobilise the Group in a way that allows us to keep pace with our customers' rapidly changing expectations, to understand their problems, and to solve them.This is why we have moved to Agile ways of working, where our teams are empowered to deliver solutions quickly and put our customers right at the heart of everything we do, every day. For our productivity, this means removing unnecessary organisational layers and silos. And for our people, this means making The Warehouse Group the best place to work.

OUR SHARED VALUES

Think customer

Whakaarohia te kaiutu

We put the customer first in everything we do

Own it

Kia haepapa

We walk the talk and make things happen

Do good

Mahi i ngā mahi pai

We are one team, standing up for our people, our planet and our communities

OUR ECOSYSTEM

We're building a customer-centric ecosystem for New Zealand that enables frictionless shopping experiences and creates greater customer value over time.

Our unique combination of local assets, global partnerships, and our strong financial position means we can further scale our business by investing in the right capabilities to serve our customers more holistically.

We now have strong ecosystem foundations in place with an established physical footprint and market-leading digital assets.[1] Our efforts and innovations have already delivered significant omni-channel capabilities across our stores, services, supply chain, and our mobile apps and online sites. These are already improving the customer experience, including the launch of 1-Hour Click & Collect in Noel Leeming and the launch of our online marketplace platform, TheMarket.com.

Further improvements will make customer shopping journeys with our family of brands faster, easier and more personalised through unified data, platforms and people – while remaining focused on the fundamentals of delivering exceptional value and new assortments with improved customer fulfilment and payment options in store and online.

[1] New Zealand's No 1. retail site by traffic.

OUR ECOSYSTEM

We start everything by focusing on our customers. We wrap our customer experiences around three unified enablers: our people, our platforms, our data.

Omni-Channel Shopping

1-day.co.nz TWG BUSINESS

Shopping is where it all starts, and we're focused on making it an easy and integrated omni-channel experience.

- **Stores** – Our stores are convenient and everywhere.
- **eCommerce** – Our first-party e-Commerce sites and apps are the top retail sites and apps in NZ.
- **Marketplace** – TheMarket.com helps take our range from 120,000 to 2 million plus!

Our Customer

Loyalty

Our customer loyalty programmes bring it all together by rewarding customers for engaging with The Warehouse Group's brands.

Advertising

Our supplier advertising infrastructure will turn our store and digital traffic into supplier funding and incremental revenue.

Click & Collect

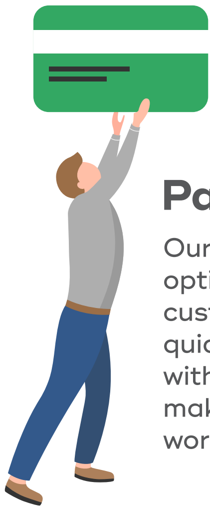
Delivery

Fulfilment

Customer fulfilment and our logistics relationships get the goods and services to our customers.

Services

Our services help our customers and businesses in their daily lives.



Payments

Our payment options help customers pay quickly and easily, with more ways to make their budgets work for them.

OUR BOARD

Joan Withers
MBA, CFInstD

Chair & Independent Non-Executive Director

Joan has been a professional director for more than 20 years and spent over 25 years working in the media industry, previously holding CEO positions at The Radio Network and Fairfax Media. Her current governance roles are Chair of The Warehouse Group Limited, director of ANZ Bank NZ Limited and Sky Network Television Limited. Joan has previously held Chair positions at Television New Zealand Limited and Auckland International Airport Limited.

Joan is a Trustee of the Sweet Louise Foundation and is Chair of a steering committee working to increase the percentage of South Auckland Māori and Pacific Island students taking up roles in the health sector.

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

OTHER DIRECTORSHIPS
- Sky Network Television Limited
- ANZ Bank NZ Limited
- Sweet Louise Foundation

Keith Smith
BCom, FCA

Deputy Chair & Independent Non-Executive Director

Keith has been involved with The Warehouse Group since Sir Stephen opened his first store in 1982, initially providing accounting, tax and corporate advice, and was Chair from 1995 to May 2011. He has a long-standing record of leadership as a director and advisor to companies in a diverse range of industries, including the energy sector, rural services, printing, media and exporting.

Keith is Chair of listed company Goodman (NZ) Limited and is a director of Mercury NZ Limited, Sky Network Television Limited, Healthcare Holdings Limited and several other private companies. He is a past president of the chartered accountants Australia and New Zealand.

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

OTHER DIRECTORSHIPS
- Goodman (NZ) Limited (Chair)
- Mercury NZ Limited
- Healthcare Holdings Limited
- Sky Network Television Limited

Robbie Tindall
BA, BSc

Non-Executive Director (Alternate to Sir Stephen Tindall)

In October 2017 Sir Stephen Tindall decided to take a leave of absence from the business. Robbie represents him during this time. Robbie has been attending Board meetings since his appointment in 2011.

Robbie studied Arts and Science at the University of Auckland before spending eight years at The Warehouse in various merchandise and buying roles. Today he works for K One W One Limited, a family investment company, working alongside – and investing in – some of New Zealand's most exciting technology and innovation companies as they grow and seek to go global.

INTERNAL
- Disclosure Committee
- Corporate Governance and Nomination Committee
- People and Remuneration Committee
- Health, Safety and Wellbeing Committee

OTHER DIRECTORSHIPS
- K One W One Limited
- The Tindall Foundation
- Foundation Services Limited

John Journee
BCom, CFinstD, MAICD

Independent
Non-Executive Director

John has had an extensive retail career, which includes executive experience across sectors that span general merchandise, fashion apparel, FMCG, consumer electronics, telecommunications, hospitality and electricity retailing.

Over his 30-year career John has spent 15 years with The Warehouse Group, starting as a joint-venture partner in 1990 and progressing through senior roles in operations, marketing, merchandise, international sourcing and business development. He has also had CEO roles with Noel Leeming and foodservice distributor Southern Hospitality.

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

OTHER DIRECTORSHIPS
- **Vanishing Point Limited**
- **Farmlands Society**
- **Colonial Motor Company Limited**
- **Quantiful Limited (Member, Advisory Board)**

Julia Raue
CMinstD, GAICD

Independent
Non-Executive Director

Julia has extensive digital, customer, data, information technology, strategy and business transformation experience across a number of sectors including airline, telecommunications, local government and not-for-profit in New Zealand and Australia.

Julia has a strong track record of delivering award-winning innovative customer-facing products and services. She has been a professional director for six years. Previously, Julia was the Chief Information Officer of Air New Zealand, and she was awarded the New Zealand CIO of the Year award in 2009.

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

OTHER DIRECTORSHIPS
- **Z Energy Limited**
- **Television New Zealand Limited**
- **Southern Cross Health Society**
- **Southern Cross Pet Insurance Limited**
- **Jade Software Corporation Limited**

Antony Balfour
BCom

Independent
Non-Executive Director

Tony has extensive global retail and eCommerce experience with a strong track record in a diverse range of industries. Most recently, he was General Manager (Markets) for Icebreaker Clothing with responsibility for the company's global business units in New Zealand, Australia, USA, Canada, Europe and Asia as well as the development of the company's rapidly growing eCommerce and retail business units.

His prior experience includes senior roles in Monster.com and Seek.com, both successful online recruitment sites.

INTERNAL
- **People and Remuneration Committee (Chair)**
- **Corporate Governance and Nomination Committee**
- **Health, Safety and Wellbeing Committee**

OTHER DIRECTORSHIPS
- **Les Mills International Limited**
- **Wayfare Limited**
- **BLIS Technologies Limited**

Will Easton

Independent
Non-Executive Director

Will is a seasoned business leader and has an extensive track record of driving growth across emerging markets and technologies. He is currently Managing Director of Facebook for Australia and New Zealand and was previously Vice President at Facebook for Asia Pacific Emerging Markets. Other roles in his portfolio include Regional Director at Google for Mobile and Social in the Asia Pacific region and Director of Sales at Microsoft in the Consumer Products Division.

Will has a passion for the retail industry and has worked closely with retailers throughout his career. He started with Coca-Cola as a Retail Sales Manager and believes that "there are more opportunities than risks in retail, provided retailers focus on improving organisational designs".

INTERNAL
- **Health, Safety and Wellbeing Committee**

OTHER DIRECTORSHIPS
- **Facebook Pty Limited**
- **Meandu Australia Pty Limited**

Dean Hamilton
BCom

Independent
Non-Executive Director

Dean has significant CEO and financial markets experience. Most recently he was CEO of Silver Fern Farms Limited where he successfully led the business through a period of significant change and improvement in financial performance, staff and supplier engagement, sustainability and consumer trust in brand.

His prior experience includes 12 years at global investment bank Deutsche Bank, working in both Australia and New Zealand where he advised a wide range of companies on mergers and acquisitions, capital management, corporate restructuring and capital raising.

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

OTHER DIRECTORSHIPS
- **Fulton Hogan Limited (Chair)**
- **Auckland International Airport Limited**
- **Tappenden Holdings Limited**
- **Skyline Enterprises Limited**

Renee Mateparae

BEng
Future Director

Renee has had extensive experience in business transformation, corporate strategy and technology innovation. Renee is the Technology Lead for Spark NZ with responsibility for technology innovation across Spark. She has also played a key leadership role in the organisation's transition to Agile.

Renee's previous experience includes roles with Air New Zealand and Macquarie Group, both here and abroad. Renee holds a Bachelor of Engineering (Automation and Control)(Hons) and a Postgraduate Diploma in Business Administration from Massey University.

BOARD SKILLS MATRIX

Governance plays a critical role in business and stakeholders deserve the highest standards of corporate governance from their boards.

Our Board skills and diversity self-assessment found that the Board holds many strong attributes with a diverse mix of skills among the Directors. This will help drive the Group to achieve our strategy through great execution, brand marketing and customer experience.

Relevant Board Skills to execute Group Strategy	Joan Withers	Keith Smith	Will Easton	John Journee	Robbie Tindall	Julia Raue	Tony Balfour	Dean Hamilton
Industry specific								
Operational experience in the retail industry				Primary	Primary		Secondary	Secondary
Brand, marketing and customer experience	Primary		Primary	Primary	Secondary	Secondary	Primary	Primary
Omni-channel retail experience			Primary	Primary	Secondary	Secondary	Secondary	
Digital and technology experience	Secondary		Primary	Secondary	Secondary	Primary	Secondary	
Direct sourcing experience				Primary	Primary			
Logistics experience				Secondary	Secondary			Secondary
Specific to Group strategy								
Development of a high performance culture	Primary	Secondary	Primary	Secondary		Primary	Secondary	Primary
Senior leadership of change management at scale	Primary	Secondary	Secondary	Primary		Primary	Secondary	Primary
Transformation and business disruption experience	Primary	Secondary	Primary	Primary		Secondary	Secondary	Primary
Innovation and entrepreneurism	Secondary	Secondary	Primary	Secondary	Primary	Secondary	Primary	
Government relations	Primary		Secondary					Secondary
Union relations	Secondary							Primary
Environment and Corporate Social Responsibility experience	Secondary		Secondary				Secondary	Primary
Subject matter expertise								
Development and execution of business strategy	Primary	Secondary	Primary	Primary	Secondary	Secondary	Primary	Primary
Governance experience	Primary	Primary	Secondary	Primary	Secondary	Primary	Primary	Primary
Large company leadership experience	Primary	Secondary	Primary	Primary		Secondary	Primary	Primary
Finance/accounting expertise	Secondary	Primary			Secondary		Secondary	Primary
Audit committee/ risk management experience	Primary	Primary		Secondary		Secondary		Primary
Regulatory knowledge and experience	Primary	Primary	Secondary					Secondary
Health and safety experience	Secondary		Secondary			Primary	Secondary	Primary
HR/learning and development experience	Secondary		Secondary			Secondary	Secondary	Secondary
Financial markets experience	Secondary	Secondary	Secondary		Secondary			Primary
Iwi relationships and connectivity	Primary				Secondary			
Shareholder and investor relations experience	Primary	Primary						Primary

Primary skills | Secondary skills

OUR STORES

257 stores across New Zealand

92 The Warehouse stores

20 Torpedo7 stores

71 Warehouse Stationery stores (incl. 17 SWAS)

74 Noel Leeming stores

Plus leading websites and apps

1-day | TheMarket.com

LOVE THE EVERYDAY FOR LESS

The Warehouse is the country's largest general merchandise retailer with a presence in virtually every Kiwi home and community.

Our customers guide our focus as their shopping behaviours change. Shifts to more convenient options increased online sales by 50% and Click & Collect sales by 60%. Our footprint continues evolving as a result. We have opened a new generation of stores starting with Lunn Avenue, closed our Birkenhead store, and opened seven new Warehouse Stationery stores-within-a-store (SWAS). The top-ranked Warehouse app became the vehicle for the first trial of Giveit™, our customer engagement programme focused on giving back to communities.

Our team members continue to invest in product quality while keeping our prices low. We reset our bike programme with improved quality and safety standards. We relaunched our denim range with new fabrications, improved fits, a reduced assortment and better availability on essential lines with the introduction of volume tables, and post lockdowns we have seen sales increase by 38% on last year.

Communications and gaming remained strong, and updated Veon smart TVs remain New Zealand's No. 1 selling TV by units. Toys remained a standout category at The Warehouse, the nation's biggest toy store and the home of favourite brands like Lego. Families appreciate our Dollar Deals on everyday items like grocery, health, beauty and cleaning. We continued to support locally-made products like Whittaker's and Sistema. We also launched our $1 range of hygiene products to tackle period poverty.

We aspire to become New Zealand's most sustainable company, in line with our values and our customers' preferences. More than $100m in sales relating to 6,000 products with sustainability attributes. We joined the Better Cotton Initiative (BCI), and our sustainable packaging standards are reducing plastic wherever possible.

Our team's passion for our customers and communities helped us manage through COVID–19. We mitigated risk by moving more of our range into basics and continuity products. Simplifying our range remains a top priority as we look to continue to reduce our SKUs (stock-keeping units) across our range in FY21. We also maintained good levels of stock during COVID–19. Importantly, we supported and strengthened our supplier relationships by continuing our commitments throughout COVID–19.

THE AUTHORITY IN APPLIANCES, TECHNOLOGY AND SERVICES

Noel Leeming helps Kiwis enrich their lives through technology. We pride ourselves on offering Kiwis global and home brands, coupled with innovative, world-class service. This was a significant year as Noel Leeming joined the elite group of New Zealand businesses turning over $1b dollars in annual sales.

Other highlights include growing our market share by 120 basis points on the previous year to 42%, achieving 19% growth in Services and 7.5% growth in our Commercial division year-on-year. Online sales growth of 145% contributed to our record sales achievement.

These successes reflect a core belief at Noel Leeming: keeping the customer at the centre of our thinking delivers business growth.

This year innovation was at the heart of our business activities, with the launch of 1-Hour Click & Collect and the Noel Leeming app. We introduced free Tech Helpdesk consultations with any purchase, helping over 18,000 customers. We grew the myNoel Leeming loyalty programme with high scores across all metrics, while also launching new Protection plans that work harder for our customers.

We introduced Nola – the first digital human in the sector – and then expanded her abilities into online chat, store concierge, and sales assistance for online consultation. In another milestone, the Apple and Noel Leeming television campaign was the first advertising integration of its kind globally.

We improved our store footprint, opening our Newmarket store Innovation Hub, setting a new benchmark for consumer electronics retailing in Australasia. We also launched Smart Home stores for customers to experience a true smart home environment.

Staff engagement and learning tools that increased the expert service level across all stores helped lift performance. Noel Leeming delivered the highest amount of technology to Kiwi kids through commercial relationships in the education sector. By improving our Services Consultation offering, more New Zealanders have our passionate experts working with them when and where they like.

DO YOUR BEST WORK

Helping our customers do their best work is what Warehouse Stationery stands for. Our customers know whatever the challenge or task, we have the tools they need. We make it easy for our customers to do their job well, be it in business, a creative project or helping educate the leaders of tomorrow.

Customer shopping behaviour continued to evolve as online sales grew 25% and Click & Collect sales grew 76%. In line with these changing dynamics, we opened seven new stores-within-a-store (SWAS) and one new stand-alone store in Dunedin.

FY20 highlights included our Back to School campaign where Warehouse Stationery remains number 1. Warehouse Stationery achieved retail operating profit of $22.8m up 36.6%, with gross margin growth of 50 basis points year-on-year. Our bring your own device (BYOD) sales grew 26% YOY. We are meeting our 'business made easy' promise with initiatives supporting local companies and broadening our range to satisfy Kiwi businesses' needs. New offerings include health and safety, cleaning, and canteen products, and an expanded furniture selection including locally-made options.

We also launched our own office products range, featuring the Warehouse Stationery brand. We expanded our te reo Māori range of school supplies and launched our recycled exercise book range, as well as our sustainable wheat paper, to further deliver on our sustainability efforts.

The Art and Craft category has enjoyed consistent growth, supported by our seasonal Get NZ Creating campaigns, the relaunch of Inspiration Station, and our art and craft sales were up 19.3% on the previous year, and gross profit up 21%.

COVID–19 saw more people working from home as New Zealand went into lockdown. We grew our position as a key provider of office products with consistent category growth and margin increase year-on-year.

SEE YOU OUT THERE

Torpedo7 believes that New Zealand is the world's best outdoor playground. That is why we live for gearing up our customers, with a broad range from the world's best adventure brands, alongside our own proudly designed products that equip Kiwis to gain the most from their outdoor pursuits.

With a newly focused leadership team in place, we have made good progress year-on-year, with sales growing 10.7%, and in-trade product margin improving 22.9%.

FY20 saw continued store network expansion as we opened four new stores in Newmarket, Rotorua, Tauranga and Northlink (Christchurch). This was complemented by strong growth in our online channel, with sales up 72% on the prior year.

Torpedo7 Club continued to drive engagement, accounting for nine out of ten customer transactions. We leverage deep insights from customers' attitudes and shopping behaviours alongside transaction data, to make sure our marketing and communications remain customer-led and personalised.

Our digital reach grew with Facebook fans up 29% on the prior year, Instagram followers up 47%, and our loyalty database up 20%.

Torpedo7's passion for the outdoors inspires our retail activities and our care for the environment. This year, we partnered with Sustainable Coastlines and Hillary Outdoors to help make our outdoor activities more sustainable.

In July 2020, Torpedo7 launched its 7 Wonders of NZ campaign to help promote domestic tourism affected by COVID-19. We have been humbled by the support our customers have shown for New Zealand's holiday destinations.

Moving forward, Torpedo7 growth initiatives will include a new club proposition to increase share, building our in-house product range, continuing to look for new store opportunities, and investing in technology to drive efficiency.

GET IT ALL DONE

Online shopping in New Zealand expanded to the next level with the introduction of TheMarket.com on 1 August 2019. TheMarket.com is an eCommerce marketplace commanding a unique position in New Zealand's digital retail environment. It has quickly become the place Kiwis visit to meet their shopping needs, no matter what they are looking for.

With over 2 million products from more than 3,500 of the world's most desirable local and international brands, TheMarket.com's range covers major lifestyle categories including fashion, home and living, health and beauty, electronics, sports and outdoors, DIY and garden, pet, entertainment, food and pantry.

In November 2019 TheMarket.com launched TheMarket Club, a subscription service that already numbers thousands of customers who are able to access VIP customer service, exclusive offers, and free shipping for orders over $45.

In addition, TheMarket.com offers easy collections and free returns from any one of the hundreds of MarketPoints located in many The Warehouse, Noel Leeming, Warehouse Stationery and Torpedo7 retail stores across New Zealand.

TheMarket.com operates in close collaboration with 1-day.co.nz, offering up to 300 hot deals every day. 1-day.co.nz has been in operation since 2007 and is the third-ranked eCommerce Group site by traffic with 25.6 million sessions last year. New Zealanders love engaging with the twice-daily emails, ensuring they don't miss out on the latest offers which get snapped up super-fast.

INTEGRATED REPORT

Our business model:

This report is The Warehouse Group's second Integrated Report. It describes our business model and how our resources all contribute through our retail value creation process to achieve our value-created process goals and ultimately our vision to build New Zealand's most sustainable, convenient and customer-first company. The aim of this report is to outline our focus areas, priorities and progress for each year, along with the risks and mitigations related to each of the resource areas of the business.

This Integrated Report has been prepared using the International Integrated Reporting Council's (IIRC) Integrated Reporting Framework. The Group's Board and Management have established internal preparation and quality control processes to ensure the quality and integrity of this report. We have not sought external audit or assurance for the non-financial information in this report.

Please refer to each of the capital disclosures on the following pages for value-created outputs and progress achieved in FY20.

INPUTS AND RESOURCES

Our Networks
The strength and efficiency of our networks achieved through store experience and digital customer channels, optimising our supply change networks and data optimisation.

Our People
He aha te mea nui o te ao. He tāngata, he tāngata, he tāngata. What is the most important thing in the world? It is people, it is people, it is people. Our focus is to develop our people to be the best they can be.

Our Expertise
Our expertise in, and understanding of, our customers' needs and wants, and our focus on systems, processes and innovation.

Our Relationships
Our stakeholders, their input to us and our contribution to them, including our customers, suppliers, team members, shareholders, government and community.

Our Environment
The consumption of resources to operate our business, including transport, electricity, packaging and their impact on our customers.

Financial Capital
The financial resources that enable the Group to execute its business model and maintain financial resilience.

To build New Zealand's most sustainable, convenient and customer-first company.

VALUE-CREATED PROCESS GOALS

RETAIL VALUE CREATION PROCESS

Understanding our market
- Demand forecasting analytics
- Customer feedback, data and insight
- Customised product offering
- Work with suppliers to focus on sustainability
- Taking a lead on sustainable product attributes.

Sourcing product
- International offices
- Career pathways
- Quality management and ethical sourcing practices
- Build direct and strategic sourcing arrangements
- Sustainable materials and manufacturing processes.

Bringing product to market
- Efficient warehousing and distribution
- Jobs for skilled and unskilled labour
- Continuous improvement of systems and processes
- Leverage third-party expertise
- Minimise our impact on the environment.

Omni-channel sales environment
- Seamless customer experience through physical and digital channels
- Customer service training, flexible working and equal opportunities
- Product fulfilment focus
- Customer loyalty
- Environmental best practice.

Supporting New Zealand communities
- Universal reach to help widely throughout New Zealand
- Superior customer service
- Effective community engagement programmes
- Creating employment opportunities for 11,000 New Zealanders.

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.

Build solutions to address productivity challenges and create a dynamic organisation that has the highest performing, diverse retail talent in New Zealand.

Build ways of working that foster repeatable and competitive excellence.

Build strong relationships with strategic stakeholder groups that deliver sustainable value.

Accelerate our delivery of sustainability proof points to respond to stakeholders' expectations of businesses driving positive outcomes for our planet and society.

Ensure efficient utilisation of financial capital to compete, enable growth and provide a return on capital.

RISK & MATE

Risk management

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

The Group acknowledges that risk management is important to all aspects of our activities and is the responsibility of every team member. Our leaders have a particular responsibility to appraise their risk environment, to put in place appropriate controls and to monitor the effectiveness of those controls.

The Group's risk appetite, which is set by the Board, provides informed decision-making in the enterprise risk management framework and delivers parameters within which the business is expected to manage risk.

The Group's enterprise risk management framework is aligned with best practice and includes:

- A consistent, structured approach to identifying and managing risk;
- Supporting the achievement of the Group's strategic, retail, financial and operational goals by managing risks associated with each of these goals;
- Encouraging an open and transparent culture where risk discussion and awareness is supported;
- Enabling better decision-making practices that support risk-informed choices, prioritise actions and distinguish between alternative courses of action; and
- Encouraging an understanding of the risk environment within which the Group operates.

Our risk management culture is based on a risk management framework which utilises the three lines of defence model. As the first line of defence, our people have clear responsibilities for business risk management including compliance with Group policy and external requirements. The second line of defence is managed by risk specialists throughout the business who provide oversight to and compliance with the first line of defence. The third line of defence is the assurance provided by internal audit and other professional service providers that report through to the Audit and Risk Committee.

Implementing this risk management culture encourages analysis and management of risk in all business processes whereby risks are identified, assessed and managed at both an enterprise level (top-down) and business level (bottom-up).

The Group, as part of its ongoing risk governance, has established an Enterprise Risk Management Committee (ERMC) which comprises senior leaders from across the Group. The committee meets monthly to ensure there is a balanced view of risk and that critical risks are understood, reviewed, appropriately managed and reported.

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 every 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.

RIALITY


noel leeming
STONERIDGE ON LUNN
noel leeming
PLEASE TAKE ONE
60 months
noel leeming
customer collection
noel leeming

Actual Progress				
Focus Area	**Priorities**	**FY19 (last year)**	**FY20 (this year)**	**FY20 Progress**
Customer facing channel optimisation	Improve our store experience and productivity			• Co-located seven more Warehouse Stationery and The Warehouse stores, bringing our total stores-within-a-store (SWAS) to 17 at the end of FY20 • 23% of capital expenditure allocated to asset maintenance (FY19: 24%) • Store foot traffic for the Group increased 1.5% (excl. COVID-19 lockdown period and vs the same period last year).
	Increase our digital footprint and productivity			• Online traffic for the Group increased 30.1%[1] • Click & Collect sales grew 103.2% across omni-channel brands, representing an average of 39.4% of online sales • Online conversion for the Group (excluding TheMarket.com) increased 1.8%[2], driven by 83.8% increase in Noel Leeming and 17.4% increase in Warehouse Stationery • Launch of TheMarket.com with now over 2 million products from 3500 local and international brands through over 650 merchants • The Warehouse App sales grew 96%, accounting for 38% of The Warehouse online sales • Expanded the Group's app footprint with launch of Noel Leeming and TheMarket.com apps.
Optimise supply chain network	Increase our level of direct sourcing			• 72% of all overseas purchases are transacted directly with exporters through one of our three offshore offices.
	Reduce our cost to serve and enhance store deliveries			• Improved delivery to store Delivered In Full On Time (DIFOT) to 97.5% (FY19: 97.0%) vs our target of 98% • Store distribution cost to serve (from port to delivery to store) increased by 8.9% (FY19: 11%), while customer fulfilment cost to serve (from fulfilment centre to customer delivery) reduced by 8.7%.
	Grow our fulfilment capability to support customer choice			• After recovering from peak fulfilment challenges and COVID-19 lockdown demand, we are now achieving an average online home delivery DIFOT of over 95% (FY19: 88%) for our online customers vs our target of 95% • Responded to increased online demand by activating additional network capacity to fulfil orders; leveraging numerous 'dark store' fulfilment centres, and enabling contactless Click & Collect including piloting four drive through locations.
Data optimisation	Establish single/ common instance of master data across all operational systems			• Installed cloud-based Master Data Management (MDM) suite to deliver accurate operational data across the Group.
	Integrate Master Data Management into all legacy systems and enable effective change management and control			• Established a Data Governance Board to ensure data standards are maintained and exceptions are resolved.

OUR NETWORKS

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

Key Initiatives

We further consolidated improvements in our retail property portfolio this year by increasing our stores-within-a-store, but store consolidations did result in the closure of one The Warehouse store and three Noel Leeming stores. However, we increased our retail reach with one new Warehouse Stationery store and two new Torpedo7 stores.

We continue to drive interactive capabilities which enhance customer support and invest in mobile-first commerce to improve the mobile app experiences. We began the process of upgrading our websites for The Warehouse, Warehouse Stationery and Noel Leeming with a best of breed eCommerce platform with tight interaction to our customer ecosystem across marketing and customer service.

Our information system strategy continues to focus on a systems modernisation programme across the Group. Our Provisional Enterprise Systems migration roadmap has been agreed and modernisation of systems of record, automation and customer engagement are well underway.

Our stores and our online environments are core elements in our customers' shopping experiences. By leveraging our physical and digital assets together, we can better serve our customers and build stronger relationships with them. Our focus is on enhancing customer acquisition and conversion, both in store and online, while refining our shopping concepts and brands to put our customers' needs first. Continuing to improve our omni-channel experiences for our customers will make their shopping journeys faster, easier and more personalised to their specific needs.

From the product side, we have made good progress embedding our integrated critical path across the functional areas of sourcing, quality, buying and planning. A better integrated view from source to sale of inventory and order management is key to unlocking efficiencies and delivering improved

Roadmap to our goal FY21	FY22+	Key Risks	Mitigations
		• Lack of well-positioned affordable retail space • Accelerated customer migration to eCommerce puts pressure on store footprint productivity • Some landlords not responding to seismic upgrades proactively.	• Re-purpose and re-utilise excess space within our large format stores, e.g. converting Dunedin to a 'dark store' • Expand and enhance Click & Collect experience • Work with our landlords to ensure stores meet seismic and lockdown risk requirements • Maintain our store fitout.
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 • Disruption to business operations due to cyber or Distributed Denial of Service (DDoS) attack.	• Improve the omni-channel experience by linking physical and digital and scaling personalisation across channels • Reinvent our Click & Collect experiences and scale TheMarket.com. • Continue to enhance security controls designed to prevent, detect or respond to an attack.
Ongoing improvement		• Challenge of investing in suppliers inside and outside existing sourcing markets • Risks of corruption, particularly in the quality and merchandise teams.	• Established direct sourcing offices in China, India and Bangladesh to enable senior leadership at source • Regularly rotating team members through different merchandise categories.
		• Significant increase in retail spend will challenge costs, resources and distribution capabilities • Peak period stress on underlying systems and processes causes unscheduled outage • COVID–19 community transmission leads to renewed lockdown, operational constraints and trading reverts to online only • NZ Post's ability to meet delivery expectations.	• 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 • Unify commerce strategies to tailor shopping experiences around individual preferences • Build learnings from COVID–19 lockdown into Business Continuity & Crisis Management plans, including flexibility of trading between stores and online, and managing in store footprint • Exploring alternative customer last-mile deliveries.
		• Integration to legacy systems is more extensive than envisaged and requires more resources than anticipated.	• Adopt standard middleware integration architectures and tools to ensure standardisation and reusability of middleware channels.
		• Integration costs to enable hybrid cloud-based environments with cloud providers continues to escalate (egress charges).	• Select a preferred cloud partner to minimise integration (egress) charges.

Not currently measured · Behind plan · On plan but at risk · On plan · Early stages of completion · 50% Complete · 75% Complete · 100% Complete

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, as we drive efficiency and use our core assets and capabilities in new ways to drive value.

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 prefer to buy and receive purchases, 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.

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.

Future focus areas
- Improve property footprint productivity by 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
- Improve our omni-channel experiences, including our mobile apps, to better link physical and digital channels powered by the delivery of a Single Customer View (SCV) enabling deeper customer understanding
- Achieve real-time inventory accuracy and online 'Available to Sell', positively impacting online performance, trade and customer satisfaction.

1. Traffic session growth includes TheMarket.com online traffic in FY20 which was not in operation in FY19.
2. Online conversion growth excludes TheMarket.com due to not being in operation in FY19.

		Actual Progress		
Focus Area	Priorities	FY19 (last year)	FY20 (this year)	FY20 Progress
Health, safety and wellbeing	Increase the number of our team members who go home safely at the end of their workday			• Severity 1 events associated with our critical risks decreased by 38% (175 events vs 281 in FY19) • Severity 1 Frequency Rate (SV1FR) of 14.2 per million hours worked, a year-on-year decrease of 37% • Same-day injury reporting of 92% - exceeding our target of 85% • Incidents Closed within 10 Days of 89% - exceeding our target of 85% • Total Recordable Injuries for the year increased 13% (479 injuries vs 424 in FY19) – the majority continue to be strains or sprains of a minor nature • Total Recordable Injury Frequency Rate (TRIFR) of 30.6 (per million hours worked) increased from 21.5 in FY19 against a target of <20 per million hours worked • Increased use of technology to keep our people and customers safe in store e.g. Aura.
High performance workplace	Increase our organisational health and engagement			• Implemented Employee Net Promoter Score (eNPS) • Launched a new digital onboarding programme • Developed a new contribution model that will define future career development, performance and remuneration.
	Lift our diversity and inclusion			• Maintained Rainbow Tick and achieved Accessibility Tick accreditation • Increased female senior leaders from 21 in FY19 to 25 in FY20 • Launched 'lean in circles' to counteract gender bias, navigate gender dynamics, provide leadership development and peer-to-peer mentoring for women and work towards gender equality.
Future-ready talent	Build our skills pipeline and workforce planning			• Launched Store Leadership Programme • Average of 41 days to fill roles vs our target of 60 days.
	Introduce continuous learning and future-ready learning experiences			• Launched Store Learning Pathways • Rolled out a Group leadership learning library, curated by S4K, focusing on micro and macro factors affecting The Warehouse Group to help develop our leaders[1] • Launched Agile Academy • Created and launched new Agile behaviours to enable a 'learning, fail fast and iterate' culture.

OUR PEOPLE

Build solutions to address productivity challenges and create a dynamic organisation that has the highest performing, diverse retail talent in New Zealand.

Key Initiatives

In preparation for moving to an Agile way of working, we launched three Frontrunner Agile Tribes in January 2020 which provided invaluable insights into how the Group should operate in an Agile world. COVID–19 was challenging for all New Zealanders including our own team members. Across the Group, we used Workplace by Facebook to share daily COVID–19 updates including information on working from home, entertaining kids during lockdown, managing mental wellbeing and finances, and providing online learning opportunities.

During FY20 we focused on five priority practices for improving our organisational culture: Customer Focus, Strategic Clarity, Challenging Leadership, Talent Development, and Rewards & Recognition. In FY21 we will adopt a revised set of engagement drivers based on survey feedback using our new eNPS tool.

In stores, we launched new Store Leadership Programmes aimed at developing our established and emerging store leaders. We refreshed and launched our new online Store Learning Pathways focused on the retail fundamentals including operational, customer, leadership and health and safety pillars. In addition, we launched a new online onboarding programme for all new employees across the Group.

From a health, safety and wellbeing perspective, we continued to address our critical risks. A focus for FY20 was managing violent and aggressive behaviour incidents against our team members in stores and we saw a successful reduction in incidents. We also signed the NZ Retailers Against Racism pledge which commits to protecting our frontline team members from racism, bigotry and physical and verbal abuse.

Significant work was undertaken preparing our Store Support Office to move to an Agile way of working. We completely reviewed all our key people practices and processes including our performance management processes, organisational structure, career

	Roadmap to our goal		Key Risks	Mitigations
	FY21	FY22+		
	TRIFR <20 million hours worked SV1FR > 10% year-on-year decrease	At completion of FY21 the HS&W roadmap will be reviewed and new metrics set	• Team member interaction with moving equipment • Exposure to violent and aggressive behaviour • Storage of hazardous substances – volumes consistently higher than compliance levels • Handling of bulky, heavy or awkward goods by team members • Slips and trips associated with poor housekeeping • COVID-19 outbreak across The Warehouse Group network.	• Early intervention programme for pain and discomfort and review of team member tasks in stores • Further roll-out of violent and aggressive behaviour mitigation controls to 30 high-risk sites • Reporting process for compliance with regulatory standards • Manual Handling – identify four tasks for process improvements • Focus on stockroom housekeeping and minimising stock in walkways and aisles • Partnerships with NZ Police • COVID-19 policy and implementation plans developed and tested.
	eNPS > 30	eNPS > 40	• Team member and/or union dissatisfaction with change and bargaining outcome • Embedding Agile ways of working at Store Support Office.	• Develop a clear employee relations strategy • Build and nurture relationships with government and external stakeholders • Partnering with experts on Agile.
	Maintain Diversity and Inclusion accreditations	Maintain Diversity and Inclusion accreditations Gender diversity is at best practice across TWG	• Challenge in building and/or buying required talent capability • Reduced performance due to lack of diversity at the Group.	• Proactively develop a diverse talent pipeline • Assign appropriate budget and technology to lift capability.
			• Inadequate change management experience and demonstrated resilience as we implement Agile ways of working at scale • Gaps in skilled or crucial experience due to unexpected employee departures • Loss of key talent.	• 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 • Succession planning in order to fill crucial roles.
			• Change fatigue • Training does not meet organisational requirements and impedes speed of change.	• Support change readiness through leadership guidance and by shifting mindsets • Streamline engaging communication.

Not currently measured · Behind plan · On plan but at risk · On plan · Early stages of completion · 50% Complete · 75% Complete · 100% Complete

paths and remuneration model, with the aim of creating a culture that is less hierarchical, more collaborative, and with teams that are empowered to move at pace and make decisions.

Significance
Our team members are at the heart of our organisation. We believe that by keeping them safe, enabling them to thrive in this fast-paced environment and preparing them for the future workplace we will lift engagement and achieve long-term business sustainability.

To do this, it is critical we focus on our people's wellbeing and everyday experience at work, adopt Agile to empower our people and put our customers first, as well as invest in digital solutions to leverage people data and insights. We are also prioritising attracting top talent, building the skills of the future and shifting our culture to be the best place to work. 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. Combined with the current volatility, uncertainty, complexity and ambiguity of the world, the amount of change within the Group has meant we needed to find a more dynamic, constant and mobile engagement tool that enables frequent surveying feedback as well as ensuring a heightened focus on our team members' wellbeing and safety.

In addition, rapidly changing technology, shifting demographics and a growing concern for climate outcomes are shaping the future of work. As customer expectations continue to evolve, we need to make significant improvements to accelerate performance and attract future talent. The next few years will see deliberate change as we prepare our culture and organisation to work in an Agile way and embrace 'future of work' environments. This is a long-term undertaking and the financial investment in technology, talent development, and health, safety and wellbeing will be critical to empower, equip and enable our people to bring to life the purpose and vision of the Group.

Future focus areas
- Embed an Agile way of working
- Implement and maintain productivity improvements
- Be the best place to work and rebuild trust and brand to attract and retain tomorrow's workforce
- Modernise learning and development to build an adaptive workforce that can thrive in an Agile and fast-paced environment
- Connect digital solutions that function at scale, enabling productivity and actionable insights
- Ensure an evolving capability to drive business performance and support future ways of working.

1. S4K is an external curation service providing learning resources and leadership insights https://s4k.com/

OUR EXPERTISE

Actual Progress				
Focus Area	**Priorities**	**FY19 (last year)**	**FY20 (last year)**	**FY20 Progress**
Understanding our customers	Use data analytics and insights to achieve better demand planning and product/market fit			• Achieved a stock turn of 4.9 times (FY19: 4.3 times) • Achieved stock keeping units (SKUs) reduction of 14% across The Warehouse and Warehouse Stationery • Aged inventory[1] as a percentage of finished goods inventory increased from 23% as at FY19 to 28% as at FY20 • Enabled a single customer view across the Group for activation at customer experience touchpoints • Used data science to test prices with customers to balance sales and gross profit while maintaining price leadership.
Enterprise systems and processes	Integrate, simplify and standardise back-office business processes across the Group Deploy best-of-breed solutions across the enterprise from systems of record to systems of engagement and automation			• Simplified, stabilised and standardised back-office systems through more effective governance over change control, backlog prioritisation, support desk, disaster recovery and Enterprise Architecture design • Started deploying cloud-based Master Data Management (MDM) system to enable 'single version of the truth' • Commenced design of back-office finance and inventory solutions to replace legacy Enterprise Resource Planning (ERP) solutions • Deployed integrated Warehouse Management System across all distribution and online fulfilment centres.
Innovation	Create leading customer experiences that drive demand Move towards a more collaborative operating model			• Deployed Nola (Customer Experience Digital Assistant) at the Noel Leeming Newmarket store and Noel Leeming online • Established a Media Command Centre to transform the advertising engine which drives our portfolio of brands • Commenced implementation of Agile ways of working at scale • Designed to achieve results by organising tribes to solve customer problems, by removing unnecessary siloes and hierarchy, and by investing in our people.

Build ways of working that foster repeatable and competitive excellence

Key Initiatives

Product is at the heart of every successful retailer, and the customer is at the centre of every successful business. Our expertise combines our skills across product and customer management 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.

We are also growing our expertise in services alongside our product offering. We are particularly focused on this area with our Noel Leeming product and service offering. Our growth in associated product services increased 19% on last year. Other milestones included the successful launch of our new Protection service plans, and the introduction of our free Tech Solutions helpdesk, which has helped over 18,000 customers.

We have made good progress improving our processes for assortment decisions and using data to identify the optimum range width, or SKU affordability. This will need further refinement to individual store location in the coming month, supported by the planned ERP implementation. Our new Agile structure will ensure a consistent and continuously improving way of working across all category areas, supported and led by the expertise of our chapter leads.

Our Every Day Low Price (EDLP) positioning continues to make accurate forecasting and price optimisation more important. Our forecast accuracy has improved and, combined with an overall SKU reduction and a move into more continuity ranges, the result is less end of season markdown and better availability to meet customer demand. The impact of COVID–19 was significant in the second half of the year with large changes in order volumes delivered in partnership with our local and direct suppliers to better phase products to match planned future demand. Initially our focus was on pushing orders out, but this quickly changed to pulling a significant number of supplier orders forward in response to COVID–19 changes in 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. We have recognised the need to standardise, automate and document our demand management processes. Good progress has been made on assortment and range planning, and we are currently focusing on building our expertise in price optimisation and assortment management. Demand planning will be supported by the ERP roll-out and remains relatively manual until then.

The Group operates a number of businesses that use different systems and processes. Our strategy is

	Roadmap to our goal		Key Risks	Mitigations
	FY21	FY22+		
			• Concerns over data privacy • Multiple instances of customers across different brands within the Group.	• Adopt a conservative posture and ensure an approach that is consistent and compliant with privacy legislation and best practice • Consolidate Group customer loyalty programmes e.g. Giveit.
			• Change management associated with migration from legacy to integrated back-office functions • Integration between new and legacy systems through multiple middleware tools and architectures • Availability of suitably qualified and experienced technical and functional resources.	• Ensure transformation to new Group and Torpedo7 ERP systems is business-led and not led by solution vendors and systems integrator • Design multi-channel middleware integration architecture to ensure agreed standards are applied and upheld • Contract suitably experienced service partners to leverage experience and augment scarce resources.
			• New customer experience technologies do not meet customer demands • Waiting for core systems to be upgraded before implementing change.	• Use Agile structure as the basis for establishing collaborative and customer-centric design innovation capability and investment • Drive customer-centric ways of working in systems of engagement first (eCommerce).

Not currently measured · Behind plan · On plan but at risk · On plan · Early stages of completion · 50% Complete · 75% Complete · 100% Complete

to provide a more stable core platform of systems and common processes upon which the brands can accelerate their points of competitive differentiation. We have started 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.

Significance
Meeting customer demands means we need to find new ways to deliver value faster. Last year we made good progress on aged inventory and full price product sell-through versus our targets and created our first interactive reporting on optimum product inventory ranges. This year our data visibility and analysis has enabled us to refine our SKU count, focusing on key lines and building a narrower, more productive assortment. We are continuing to develop this to identify and maintain the right products at the right quantity levels, and at the right retail prices to align with our customer demand.

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.

Our large number of old legacy core systems lack integration, are not fully supported, and are not fit for purpose given the business growth and advances in customer demand for a seamless omni-channel experience. In recognition of this risk, the Board has approved a significant investment in back-office systems, which is well underway.

Materiality
As a customer centric business, we depend on the expertise of our people in so many ways. Automation of systems will give us greater resilience by reducing dependence on individuals' knowledge, while retaining 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.

Future focus areas
- Ensure all back-office functions are standardised, based on best practice and fully integrated to enable seamless end-to-end functions
- Reduce the cost of doing business through seamless systems integration, best practices, information accuracy and common ways of working
- Activate a single customer view across the Group to better personalise the customer experience and to operate our business in accordance with changing customer demands
- Launch the B2C eCommerce platform in FY21 and continue the B2B platform journey
- Automate our assortment process as much as possible
- Remove product risk by weighting the range to more continuity products
- Increase our speed to market.

1. Aged inventory is stock in store held for more than 26 weeks.

Actual Progress

Focus Area	Priorities	FY19 (last year)	FY20 (this year)	FY20 Progress
Customers	Rewarding and engaging customer experiences			• Weighted average Net Promoter Score (NPS) increased for the Group in the last month of the year[1] • Implemented NPS for TheMarket.com • Customer frequency of purchase remained stable year-on-year, with good growth in basket size in Noel Leeming and Torpedo7 • The Warehouse Group market share grew +0.4 basis points to 6.3% of the total retail market (including grocery and fuel).[2]
Suppliers	Collaborative and engaging supplier relationships			• Extended Ethical Sourcing programme, placing more emphasis on supplier development and training • Conducted 146 face-to-face trainings in 2020 and completed over 2,000 e-learning lessons on various labour and environmental management topics • Continued our ongoing factory auditing and monitoring activity.
Team members	Strong employment brand			• Employment brand awareness of 86% (FY19: 89%) and brand attractiveness of 36% (FY19: 37%)[3] • Implemented Employee Net Promoter Score with baseline established • Increased employee wage rate • Announced our Retail Wage commitment, entitling employees at The Warehouse with at least a year's worth of service to receive a pay increase, which rose to $21.15 an hour this year.
Investors	Reputable standing in the investment community including in our ability to deliver results			• Interim results displayed evidence of benefits from the transformation plan. This transformation concluded in March 2020 with 282 initiatives implemented across the Group • Forward-looking guidance pulled due to uncertainty around impacts of COVID-19 on trading performance.
Government and community	Strong corporate brand and reputation			• Maintained 8th position on Corporate Reputation Index 2020 • Raised $71.2 million to date for New Zealand charities and communities since 1982 • Applied the Government Living Standard Framework to define key areas of positive outcomes for our society and the environment.

OUR RELATIONSH

Build strong relationships with strategic stakeholder groups that deliver sustainable value

Key Initiatives

This year we continued our journey to make shopping with The Warehouse Group family of brands as convenient as possible for our customers. Value for money remains a priority for The Warehouse customer, and we worked closely with our suppliers to improve the quality and sustainability attributes of our products, while ensuring our prices remain low. We saw good growth in The Warehouse and Noel Leeming apps and developed our insights capability to further understand how our customers want to interact with us so we can better meet their needs.

As part of our Vendor Consolidation Programme, we have introduced a balanced scorecard. This tool measures a range of metrics including quality, innovation, sustainability, delivery performance and price. Our goal is to have fewer but more meaningful supplier relationships.

In our relationships with investors, we continue to embrace Integrated Reporting. 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, ministers and public parties on issues such as climate change, youth employment and business needs for tertiary training. In November 2019 our Group Chief Executive and Chief Sustainability Officers joined a New Zealand ministerial-led delegation to the United Nations Climate Summit COP25 in Madrid where they engaged with fellow international business leaders on climate change initiatives and challenges in business. During the year, the business provided input into government consultations including the Taskforce on Climate-related Financial Disclosures (TCFD), the reform of the New Zealand Emissions Trading Scheme, tertiary and vocational education reforms, waste minimisation and product stewardship, healthy homes, COVID-19 processes and labour reforms.

The Red Shirts in Communities programme to assist young people on social benefits into paid employment continued for part of the year but was halted due to COVID-19 and is now being redesigned in partnership with the Ministry of Social Development (MSD) to provide displaced people with leading-edge skills which will appeal to the needs of future employers. This next generation programme will include sustainability and digital skills and is intended to be credentialised with NZQA. Red Shirts in Schools in The Warehouse, and Blue Shirts in Schools in Warehouse Stationery has now been extended to Noel Leeming with Discovering Passionate Experts and reached 1,125 student enrolments in these programmes in FY20. These programmes continued throughout COVID-19 with the study portion of the programme moving to online instruction, while the in-store component has been paused due to COVID-19 restrictions and can resume under alert level 1.

We're proud to partner with IBM and Manukau Institute of Technology to launch Pathways in Technology (P-TECH), an initiative which brings together industry, high schools and tertiary education partners

	Roadmap to our goal		Key Risks	Mitigations
	FY21	FY22+		
	On plan	On plan	• International competition grows and New Zealand customers increasingly interact with overseas brands • Customer disposable income remains constrained in the years ahead, with the economic impacts from COVID-19 still unclear.	• Deliver add-on/supporting services surrounding retail • Focus on delivering value-for-money propositions linking sustainability values • Consolidate Group customer loyalty programmes e.g. Giveit.
	On plan	On plan	• Consolidation of upstream suppliers limits our choices and changes buyer power dynamics • International trade barriers or access limitations • 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.
	On plan but at risk	On plan	• Staff turnover, driving increased staffing costs • Industrial action risk increases due to climate of wage 'catch up' and base wage inflation.	• Partner with employee groups • Broader employee participation and values beyond wages • Increase wage rate to improve employee motivation and satisfaction • Implement Employee Net Promoter Score to enable constant feedback and improvement.
	On plan	On plan	• 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 regular, open dialogue with the investment community • Provide timely, transparent disclosure of company performance, strategy and investments • Deliver on stated Group goals and performance targets.
	On plan but at risk	On plan	• Our capacity to support government initiatives is spread too thinly to be effective • Politicians target The Warehouse Group, leading to reputational risk.	• Continue routine accountability reporting • Measuring our impact and the strength of relationships is difficult, and something we continue to work on.

Not currently measured · Behind plan · On plan but at risk · On plan · Early stages of completion · 50% Complete · 75% Complete · 100% Complete

HIPS

to equip students with the technical skills they need for the future. P-TECH is an international programme with 220 schools and more than 100,000 students across 24 countries. It is a five-year programme where students will complete high school, earn an advanced diploma and engage in mentoring from IBM and The Warehouse Group, to be ready to step easily into high-growth, 'new collar' jobs or continue onto higher level study.

We worked with Massey University to update the Massey University Bachelor of Retail and Business Management (BRBM) degree, to embed the retail element of the programme into a general business degree. We continue to promote retail as a career through Industry Training Organisations (ITOs) and membership on the Boards of Directors at ServiceIQ and Retail NZ as well as the newly formed Industry Establishment Development Board overseeing the set-up of Services Workforce Development Council in building a sustainable vocational education system.

Through our community partnerships, we help charities address some of New Zealanders' most pressing needs including mental health, healthy homes, family violence, child poverty and equality, and our environment. We work closely with charities including The Salvation Army, Life Education Trust, Women's Refuge and Plunket to achieve better outcomes for New Zealanders.

Materiality
Given the broad coverage of The Warehouse Group's stakeholders, we have not attempted to define or explain materiality to our relationships.

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 ensure we remain relevant and continue to grow in our market.

Future focus areas
- Deliver stronger end-to-end customer experiences that motivate our customers to give us an increased share of wallet and spend
- Drive product development and design through strategic relationships with our suppliers and take the ethical and responsible sourcing actions that our customers now expect
- Prepare our culture and organisation to move our team members into an Agile working environment and in turn be prepared for future of work environments
- Continue to work within our communities and with key stakeholders to deliver a positive impact for the communities we serve
- Partner with suppliers who can help us build our ranges faster, smarter and with more sustainable options.

1. Qualtrics, Customer Voice.
2. Marketview (BNZ credit and debit card data). For the time period from 29 July 2019 to 2 August 2020, when compared to the entire retail market, including supermarkets and fuel. FY20 Group market share includes 1-day and TheMarket.com.
3 Randstad Employer Brand Research 2020 Report, Wholesale and Retail Trade sectors. Includes TheMarket.com and 1-day in FY20.

OUR ENVIRONMENT

Accelerate our delivery of sustainability proof points to respond to stakeholders' expectations of businesses driving positive outcomes for our planet and society

Key Initiatives
There are three important ways in which we are strengthening our sustainability governance and accelerating our progress to build New Zealand's most sustainable, convenient and customer-first company. We are embedding sustainability impacts in all business processes; we are developing reporting metrics so we can better link sustainability outcomes to all business activities; and we are educating our team members on sustainability matters to strengthen our 'Do Good' culture.

Reduce
The Group's Active Emissions Reduction Programme has been running for two years. Our goal is to accelerate the transition to a zero-carbon future by deploying sustainability in every aspect of our business via a robust policy framework that sets sustainability standards and metrics including emissions reduction, energy efficiency, water conservation, waste reduction and community engagement. We continue to build technical expertise and market intelligence by working with leading industry organisations including the New Zealand Sustainable Business Council (SBC) and the Climate Leaders Coalition.

In early FY20, we launched our sustainable packaging guidelines and by year end over 1,000 products had undergone a change to remove non-recyclable plastics or reduce overall packaging mass. For example, removing the PVC plastic satchel around just one of the blankets in our Living & Co range and replacing it with a cardboard band will save 712kg of waste over the next year.

Offset
In February 2020, we celebrated the one-year anniversary of our Carbon Neutrality. Our approach to voluntary emissions offsets continues to be informed by domestic and international stakeholders' engagement and legislation including the Zero Carbon Bill and Article 6 of the Paris Agreement.

Actual Progress				
Focus Area	**Priorities**	**FY19 (last year)**	**FY20 (this year)**	**FY20 Progress**
Reduce	Reduce carbon emissions by 32% or 12,742 tonnes of CO^2 by 2030 (from 2015 baseline)	4% year-on-year reduction	8% year-on-year reduction	• Transitioned 30% of our light commercial vehicle fleet to Electric Vehicles • Converted 5 stores to energy-efficient LED lighting - 20% of stores now feature LED lighting • Signed a Collaboration Agreement with Energy Efficiency and Conservation Authority (EECA) to deliver energy efficiency across our portfolio.
	Divert 85% of our operational waste by 2022	78% diverted this year	77% diverted this year	• Disposed of 2,741 tonnes of waste to landfill, an increase of 3% year on year due to COVID-19 hygiene practice, as well as the number of store renovations during the year.
	Reduce packaging waste			• Launched Sustainable Packaging Guidelines to further increase sustainable packaged products • Delivered packaging improvements across more than 1,000 products, decreasing the amount of consumer waste to landfill.
Offset	Regeneration of land to offset 65% of our carbon emissions by 2025			• Delayed our domestic offsetting programme as we await clarity about regulations of the treatment of native forestry credits for voluntary non-Emissions Trading Scheme (ETS) offsetting.
	Continue to secure our carboNZero certification	FY18 emissions 100% offset	FY19 emissions 100% offset	• On track to retain our carbon neutral certification by purchasing 36,030 international Gold Standard carbon credits (FY19: 41,000) and by investing in cleantech projects in countries where we operate.
Enhance	Reassess our raw materials			• 6,000 stock keeping units (SKUs) products accounting for over $100m annual sales carry a sustainability attribute or packaging • Over 25% of cotton procurement sourced via the Better Cotton Initiative.
	Source ethically and responsibly			• Invested in IT systems enabling us to track the performance of products with environmental attributes.

Our emissions reporting continues to follow the strictest standards (carboNZeroCert™) and auditing processes of our independent third party reporting partner, Toitū Envirocare. This certification ensures accurate and consistent carbon emissions measurement, reduction and neutrality claims. Our reduction targets are aligned with the Climate Leaders Coalition commitments, which reflect the Paris Agreement guidelines. Our organisation is certified in accordance with ISO 14064–1:2006 or PAS 2050:2011.

Enhance

Over the past 24 months, the Group has increased the sustainability of the products we sell in our stores. Our sourcing and merchandising teams have set specific goals in each of our categories while monitoring the capacity of our suppliers to deliver on these new requirements.

Significance

The COVID–19 disruption has intensified and accelerated the risks and opportunities presented by sustainability. While asking for great value and affordability, consumers are increasingly challenging the linear resource-intensive consumption model and demanding more sustainable options available at a value price.

Some attributes such as plastic, packaging, and waste have become highly polarising and are driving fundamental changes in our industry. Our business values, our team culture, and the technical capacity, supported by the constant delivery of new sustainability proof points in our business, are preparing us positively for this consequential shift. We believe our focus on sustainability distinguishes us from many of our competitors.

Materiality

In New Zealand, the Government has passed the Zero Carbon Act, and New Zealanders are voicing increasing concern about our impact on the environment. As a retailer of fast-moving consumer goods, we see these trends as fundamentally shifting the way we engage with our markets, requiring a deep transformation of our value chain.

We believe our efforts in recent years to embed sustainability within our ways of working and especially in our sourcing practice will position us strategically to benefit from these changes.

Having based our decisions and actions on 'Do Good', we now see we have a positive competitive advantage with retail and commercial customers. We are well positioned to respond to government procurement tenders that now include sustainability and impact metrics in their suppliers' selection criteria.

Future focus areas

- Keep building our sustainable sourcing capacity and deliver measurable improvements on ingredient certification, recyclability, and packaging reduction
- Continue to reduce our business carbon emissions throughout our operations
- Increase the sustainability fluency of our entire organisation
- Build a robust set of sustainability policies and standards to deliver consistent sustainability outcomes.

	Roadmap to our goal		Key Risks	Mitigations
	FY25 (5 years)	FY30 (10 years)		
	20% reduction from 2015	32% reduction from 2015	• The cost of emissions reduction solutions becomes prohibitive and our carbon emissions grow as our business grows • Emissions generated by our logistics increase • Consumers wrongly attribute emissions generated by manufacturing the products we sell to the Group's footprint.	• Focus on active emissions reduction initiatives • Ensure the cost of carbon emissions is considered in our cost of doing business • Participate in the Climate Leaders Coalition and other industry organisations.
	85% diverted	Ongoing improvement	• Downstream recycling solutions are ineffective, too costly or unavailable • Limited buying power to influence suppliers re-tooling at point of manufacture.	• Include waste diversion achievements in stores' performance reviews • Partner with business and government to encourage onshore recycling solutions.
	Consumer packaging focus	100% recyclable packaging	• Mandatory product stewardship legislation across product categories sold by The Warehouse Group • Change in consumer shopping behaviours because of growing concerns about plastic pollution.	• Make sustainable packaging a strategic priority for our business • Partner with international retailers and innovate with manufacturers • Monitor the impact of new sustainable packaging on our cost of goods sold.
	Yield phase	65% of emissions offset this way	• Increase in the price of domestic native forestry credits • Change in voluntary ETS regulation complicates our capacity to retain our carbon neutral status.	• Participate in key industry forums including the NZ Climate Leaders Coalition and the New Zealand delegation to the UN Climate Summit COP25 • Participate in key government consultations on carbon emissions legislation.
		35% of emissions offset this way	• Pricing volatility for domestic and international carbon credits • Reputational risk of International Carbon Credits.	• Delay long-term commitment in favour of a 12-month programme • Use Gold Standard carbon credits to satisfy the most rigorous certification process.
		Sustainable sourcing programme in place	• Dependency on suppliers' ability to deliver new sustainability requirements without impacting price, quality and availability.	• Develop detailed analytics that capture the total life-cycle cost in decision-making • Grow in-house design and test new price/value combinations for customers.
			• International attestation of suppliers and availability of products from suppliers who meet our ethical sourcing standards.	• 100% of our private label manufacturing sites are required to meet our ethical sourcing standard.

Not currently measured · Behind plan · On plan but at risk · On plan · Early stages of completion · 50% Complete · 75% Complete · 100% Complete

		Actual Progress		
Focus Area	Priorities	FY19 (last year)	FY20 (this year)	FY20 Progress
Financial resilience	Maintain financial flexibility through strong capital management			• Closed the financial year in a net cash position (gearing was 13.6% in FY19), reflecting no interim dividend payment and cash preservation initiatives from April through to June such as capital expenditure deferral and reduced working capital • Available cash liquidity of over $490m at year end • Banking covenant waiver received on interest cover through to the end of FY21 • Stable cash flow generation as customers chose to shop for value • The Group maintains lease profile flexibility by having the majority of lease renewals within 5 years and the majority of lease final expiry dates greater than 10 years.
Total Shareholder Return	Reward shareholders with a consistently strong return on investment			• Capital decline in share price of 9.6% over FY20 against an increase in the NZX50 capital index of 5.4% • Annual Total Shareholder Return was –6.1% (FY19 +20.2%) • The Dividend Policy is suspended for the current year with the intention to resume dividend payments in line with policy in FY21 • Return on Funds Employed of 34.5% (FY19: 23.5%).
Allocation of capital	Optimally invest in our business to grow customer lifetime value			• Continued developing the Investment Committee process which provides a disciplined approach to capital expenditure • Invested in projects aligned to develop and enable the customer ecosystem such as TheMarket.com, Master Data Management, Warehouse Management System and an Enterprise Resource Planning system • Greater focus on optimising the store network to reflect shifts in customer shopping preferences and initiatives such as store-within-a-store integrations • Maintained low level of capital expenditure as a percentage of depreciation of 109% in FY20 (FY19: 104%) while investing in operational change.
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 FY20 due to working capital initiatives • Access to committed bank debt facilities of $330m (undrawn at balance date) in addition to a $50m seasonal credit facility • The Group repaid its NZX-listed bond during FY20 • Market capitalisation of $718m by the end of FY20.

FINANCIAL CA

Ensure efficient utilisation of financial capital to compete and enable growth

Key Initiatives

COVID–19 presented an unprecedented challenge to the business. However, the Group was well placed to weather the economic shock because of the operational and financial disciplines put in place as part of our transformation programme. Further initiatives included a greater rigour on advertising and promotion spend and more efficient inventory turn. These initiatives, combined with the wage subsidy received from the Government, rent relief from many landlords and improvements to supplier terms, contributed to the strong cash position of the business at year end.

Of the FY20 capital expenditure of $63.7m, 51% was on Information Systems & Digital initiatives, 33% on store, distribution centres and other property, and the remaining 16% on logistics. The Group remains of the view there will be several years of capital expenditure in the $100m to $120m range as it continues to invest in platform development.

Significance

Financial capital enables 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). The transformation plans are, however, not only associated with financial performance. We are also 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

	Roadmap to our goal		Key Risks	Mitigations
	FY21	FY22+		
			• Impact of the New Zealand economy and the indirect impact of the economic performance of New Zealand's major trading partners • Offshore retailers may enter or increase existing footprint in New Zealand, altering the retail sector's competitive landscape and creating direct business competition • Economic downturns may result in a deterioration of financial performance • Continued uncertainty around impact of COVID-19 on both domestic and global economy.	• The Group's established New Zealand brands with strong value propositions and diversified product offering can alleviate performance pressure from market downturns • Tightly manage our property portfolio to balance location security with flexibility to manage individual lease commitments • Maintain an unparalleled footprint in the New Zealand retail market across physical and online channels • Continue to build the capabilities of our customer-centric ecosystem that is dedicated to creating a frictionless shopping experience for our customers and be value-enhancing for them.
			• Downturn in domestic and international financial markets may impact on the share price of The Warehouse Group • Dividend payments may be deferred or cancelled should it be in the best long-term interests of the company and its stakeholders. This may be the case where external events that impact the domestic economy and The Warehouse Group's financial performance threaten its short-term liquidity position.	• Develop trust with shareholders by 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 • Visibility to shareholders on long-term operation and financial targets.
			• 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 • Under performance 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 • Apply a 'customer-first' lens to expenditure.
			• Tightening of credit markets and/or local banking regulations and downturn in equity market performance due to local and/or global economic factors cause a rationing of capital.	• Maintain access to diverse and quality sources of capital and target liquidity of $500m • Retain our banking relationships and bank facility headroom in excess of immediate needs • Supplement our bank funding with alternative funding instruments where feasible • NZX listed for 25 years with a founding shareholder who has maintained a controlling stake • Continue our focus on working capital control and converting earnings into operating cash flow • Access to NZ Debt Capital Markets.

Not currently measured | Behind plan | On plan but at risk | On plan | Early stages of completion | 50% Complete | 75% Complete | 100% Complete

PITAL

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

'Do 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. To deliver on that commitment, the Group needs to also have a robust financial capital base.

We have 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 all New Zealanders.

Future focus areas

- Develop financial processes that enable the benefits of Agile ways of working
- Establish the Quarterly Business Review process to ensure alignment and transparency on strategic priorities across the Group and allocate resources to highest priority initiatives
- Build the Enterprise Resource Planning system which commences with a financial foundation
- Further develop our risk management.

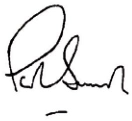
Financial Statements

For the 53 week period ended 2 August 2020

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

These financial statements have been approved for issue by the Board of Directors on 14 October 2020.

Joan Withers - Chair
14 October 2020



Keith Smith - Deputy Chair
14 October 2020

CONTENTS

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

Consolidated Income Statement

For the 53 week period ended 2 August 2020

	Note	(53 Weeks) 2020 $000	(52 Weeks) 2019 $000
Continuing operations			
Retail sales	2.1	3,172,830	3,071,357
Cost of retail goods sold	8.1	(2,137,950)	(2,042,722)
Gross profit		1,034,880	1,028,635
Other income	3.1	83,919	8,325
Employee expense	3.2	(559,299)	(520,892)
Depreciation and amortisation expense	2.2	(154,652)	(60,613)
Other operating expenses	3.3	(247,087)	(343,077)
Operating profit from continuing operations	2.1	157,761	112,378
Unusual items	5.0	(53,079)	(9,435)
Earnings before interest and tax from continuing operations		104,682	102,943
Net interest expense	11.2	(46,710)	(8,879)
Profit before tax from continuing operations		57,972	94,064
Income tax expense	4.1	(14,305)	(26,621)
Net profit for the period from continuing operations		43,667	67,443
Discontinued operations			
Gain/(loss) from discontinued operations (net of tax)		31	(1,928)
Net profit for the period		43,698	65,515
Attributable to:			
Shareholders of the parent		44,472	65,382
Minority interests	12.4	(774)	133
		43,698	65,515
Profit attributable to shareholders of the parent relates to:			
Profit from continuing operations		44,441	67,310
Gain/(loss) from discontinued operations		31	(1,928)
		44,472	65,382
Earnings per share attributable to shareholders of the parent			
Basic earnings per share	6.0	12.9 cents	18.9 cents
Basic earnings per share - continuing operations	6.0	12.9 cents	19.5 cents

Consolidated Statement of Comprehensive Income

For the 53 week period ended 2 August 2020

	Note	(53 Weeks) 2020 $000	(52 Weeks) 2019 $000
Net profit for the period		43,698	65,515
Items that may be reclassified subsequently to the income statement			
Movement in foreign currency translation reserve		(184)	19
Movement in derivative cash flow hedges		(16,598)	(17,165)
Movement in de-designated derivative hedges		226	580
Tax relating to movement in hedge reserve		4,585	4,644
Other comprehensive income		(11,971)	(11,922)
Total comprehensive income		31,727	53,593
Attributable to:			
Shareholders of the parent		32,501	53,460
Minority interest	12.4	(774)	133
Total comprehensive income		31,727	53,593
Attributable to:			
Total comprehensive income from continuing operations		31,696	55,521
Total comprehensive gain/(loss) from discontinued operations		31	(1,928)
Total comprehensive income		31,727	53,593
Total comprehensive income from continuing operations attributable to:			
Shareholders of the parent		32,470	55,388
Minority interest	12.4	(774)	133
Total comprehensive income		31,696	55,521

Consolidated Balance Sheet

As at 2 August 2020

	Note	2020	2019
		$ 000	$ 000
ASSETS			
Current assets			
Cash and cash equivalents	11.1	168,068	49,297
Trade and other receivables	8.2	84,263	90,670
Inventories	8.1	393,610	517,758
Derivative financial instruments	13.2	243	7,948
Total current assets		646,184	665,673
Non current assets			
Property, plant and equipment	9.1	197,131	221,161
Intangible assets	9.2	135,566	125,512
Right of use assets	10.1	774,175	-
Deferred taxation	4.3	101,805	38,475
Total non current assets		1,208,677	385,148
Total assets	2.3	1,854,861	1,050,821
LIABILITIES			
Current liabilities			
Borrowings	11.1	-	125,465
Trade and other payables	8.3	420,805	352,575
Derivative financial instruments	13.2	27,091	939
Taxation payable	4.2	10,982	713
Lease liabilities	10.2	106,467	–
Provisions	8.4	60,991	60,771
Total current liabilities		626,336	540,463
Non current liabilities			
Derivative financial instruments	13.2	-	7,055
Lease liabilities	10.2	828,321	-
Provisions	8.4	23,865	21,270
Total non current liabilities		852,186	28,325
Total liabilities	2.3	1,478,522	568,788
Net assets		376,339	482,033
EQUITY			
Contributed equity	12.2	360,061	360,061
Reserves	12.3	(13,187)	(1,216)
Retained earnings		30,259	122,469
Total equity attributable to shareholders		377,133	481,314
Minority interest	12.4	(794)	719
Total equity		376,339	482,033

Consolidated Statement of Cash Flows

For the 53 week period ended 2 August 2020

	Note	(53 weeks) 2020	(52 weeks) 2019
		$ 000	$ 000
Cash flows from operating activities			
Cash received from customers		3,250,429	3,083,748
Payments to suppliers and employees		(2,775,928)	(2,853,781)
Income tax paid	4.2	(19,879)	(26,540)
Interest paid		(46,616)	(8,657)
		408,006	194,770
Loans repaid by discontinued finance business customers		-	26,417
New loans to discontinued finance business customers		-	(23,194)
Net cash flows from operating activities		408,006	197,993
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment and computer software		12,008	1,860
Proceeds from business disposal		-	1,850
Purchase of property, plant and equipment and computer software		(64,513)	(61,326)
Business disposal warranty claim		-	(1,421)
Net cash flows from investing activities		(52,505)	(59,037)
Cash flows from financing activities			
Repayment of bank borrowings		-	(63,715)
Repayment of fixed rate senior bond		(125,000)	–
Lease principal repayments		(83,833)	–
Treasury stock dividends received		115	217
Dividends paid to parent shareholders		(27,883)	(52,302)
Dividends paid to minority shareholders		(129)	(179)
Other items		-	(135)
Net cash flows from financing activities		(236,730)	(116,114)
Net cash flow		118,771	22,842
Opening cash position		49,297	26,455
Closing cash position	11.1	168,068	49,297

Reconciliation of Operating Cash Flows

For the 53 week period ended 2 August 2020

	Note	(53 weeks) 2020	(52 weeks) 2019
		$ 000	$ 000
Net profit		43,698	65,515
Non-cash items			
Depreciation and amortisation expense	2.2	154,652	60,613
Intangible asset impairment	9.2	8,028	5,478
Property, plant and equipment impairment	9.1	8,659	-
Share based payment expense	3.2	350	420
Interest capitalisation		384	446
COVID-19 landlord rent relief	10.2	(8,246)	-
Movement in deferred tax	4.3	(15,907)	4,857
Change in fair value of derivatives that are not hedge effective		6,427	-
Movement in de-designated derivative hedges		163	418
Total non-cash items		154,510	72,232
Items classified as investing or financing activities			
Loss/(gain) on disposal of property, plant and equipment		1,206	(10,392)
Loss on lease terminations		553	-
Gain on business disposal		-	(398)
Supplementary dividend tax credit	4.2	136	275
Total investing and financing adjustments		1,895	(10,515)
Changes in assets and liabilities			
Trade and other receivables		(4,643)	6,197
Inventories		124,148	6,082
Trade and other payables		75,314	70,785
Provisions		2,815	(6,628)
Income tax		10,269	(5,675)
Total changes in assets and liabilities		207,903	70,761
Net cash flows from operating activities		408,006	197,993

Consolidated Statement of Changes in Equity

For the 53 week period ended 2 August 2020

	Note	Share Capital	Treasury Shares	Hedge Reserves	Foreign Currency Translation Reserve	Employee Share Benefits Reserve	Retained Earnings	Minority Interest	Total Equity
		$000	$000	$000	$000	$000	$000	$000	$000
For the 53 week period ended 2 August 2020									
Balance at the beginning of the period		365,517	(5,456)	(1,230)	14	-	122,469	719	482,033
Adjustment on adoption of NZ IFRS 16	10.4	-	-	-	-	-	(109,972)	(38)	(110,010)
Restated balance at the beginning of the period		365,517	(5,456)	(1,230)	14	-	12,497	681	372,023
Net profit for the period		-	-	-	-	-	44,472	(774)	43,698
Movement in foreign currency translation reserve		-	-	-	(184)	-	-	-	(184)
Movement in derivative cash flow hedges		-	-	(16,598)	-	-	-	-	(16,598)
Movement in de-designated derivative hedges		-	-	226	-	-	-	-	226
Tax relating to movement in hedge reserve	4.2, 4.3	-	-	4,585	-	-	-	-	4,585
Total comprehensive income		-	-	(11,787)	(184)	-	44,472	(774)	31,727
Contributions by and distributions to owners									
Share rights charged to the income statement		-	-	-	-	-	-	350	350
Share rights vested		-	-	-	-	-	922	(922)	-
Dividends paid	7.1, 12.4	-	-	-	-	-	(27,747)	(129)	(27,876)
Treasury stock dividends received		-	-	-	-	-	115	-	115
Balance at the end of the period		365,517	(5,456)	(13,017)	(170)	-	30,259	(794)	376,339
		(note: 12.2)	(note: 12.2)	(note: 12.3)	(note: 12.3)			(note: 12.4)	
For the 52 week period ended 28 July 2019									
Balance at the beginning of the period		365,517	(6,060)	10,711	(5)	766	108,476	879	480,284
Adjustment on adoption of NZ IFRS 15		-	-	-	-	-	(275)	-	(275)
Restated balance at the beginning of the period		365,517	(6,060)	10,711	(5)	766	108,201	879	480,009
Profit for the period		-	-	-	-	-	65,382	133	65,515
Movement in foreign currency translation reserve		-	-	-	19	-	-	-	19
Movement in derivative cash flow hedges		-	-	(17,165)	-	-	-	-	(17,165)
Movement in de-designated derivative hedges		-	-	580	-	-	-	-	580
Tax relating to movement in hedge reserve	4.2, 4.3	-	-	4,644	-	-	-	-	4,644
Total comprehensive income		-	-	(11,941)	19	-	65,382	133	53,593
Contributions by and distributions to owners									
Share rights charged to the income statement		-	-	-	-	63	-	357	420
Share rights vested		-	604	-	-	(829)	696	(471)	-
Dividends paid	7.1, 12.4	-	-	-	-	-	(52,027)	(179)	(52,206)
Treasury stock dividends received		-	-	-	-	-	217	-	217
Balance at the end of the period		365,517	(5,456)	(1,230)	14	-	122,469	719	482,033
		(note: 12.2)	(note: 12.2)	(note: 12.3)	(note: 12.3)			(note: 12.4)	

Notes to the Financial Statements - Basis of Preparation

For the 53 week period ended 2 August 2020

1.0 BASIS OF PREPARATION

1.1 Reporting entity

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

1.2 Compliance statement

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

1.3 Basis of preparation

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

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

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

			Percentage Ownership	
Name of Entity	Principal Activity		2020	2019
The Warehouse Limited	Retail		100	100
Noel Leeming Group Limited	Retail		100	100
Torpedo7 Limited	Retail		100	100
TheMarket.com Limited	Online marketplace		89	95
Diners Club (NZ) Limited	Financial Services	Classified as discontinued operations	100	100
Eldamos Investments Limited	Property		100	100
The Warehouse Nominees Limited	Investment		100	100

1.4 Reporting period

These financial statements are for the 53 week period 29 July 2019 to 2 August 2020. The comparative period is for the 52 week period 30 July 2018 to 28 July 2019. The Group operates on a weekly trading and reporting cycle, which means most financial years represent a 52 week period, a 53 week catch-up year occurs once every five to six years as happened this year.

1.5 Significant transactions and events in the financial year

The following significant transactions and events affected the financial performance and financial position of the Group for the year ended 2 August 2020:

Adoption of NZ IFRS 16 Leases

During the year, the Group adopted NZ IFRS 16 'Leases' (NZ IFRS 16), which resulted in significant changes to the presentation of the Group's financial position. The Group recognised 'right-of-use' assets of $834.5 million, and $990.2 million of lease liabilities as at 28 July 2019, with a reduction in retained earnings of $110.0 million. The standard was adopted using the modified retrospective approach, with no restatement of comparative information. As a result of adopting NZ IFRS 16, continuing net profit after taxation for the year also increased by $1.5 million. Further details of the adoption of NZ IFRS 16 and the new accounting policies are disclosed in note 10.

Rise transformation

January 2020 marked the completion of the Group's 'Rise' transformation programme, which resulted in 275 initiatives being implemented across the Group. The programme was designed to improve financial performance and focused on simplification to reduce complexities and costs, reduce working capital, drive efficiencies and generate greater customer relevance. The Group partnered with a consultancy firm to assist with the implementation of the programme. The Group incurred costs of $22.0 million (refer note 5.0) which largely represented the consultancy firm's success fees.

Group structure

Diners Club (NZ) – discontinued operation

The Group wound up the remaining Diners Club (NZ) business in April 2020, which was excluded from the sale of the Group's Financial Services operations in September 2017. The Company made a small after-tax profit ($31,000) during the year as part of an arrangement with Diners Club International to assist with merchant transition.

TheMarket.com – minority interest

TheMarket.com employees increased their minority shareholders' interests from 5.3% to 10.7% of the Company when their share rights vested in March 2020 (refer note 12.4) as part of the Group's employee share right plan.

COVID-19

In March 2020, the Government announced a package of measures to support businesses through the impact of COVID-19. Two of the measures that were introduced which had a direct impact on the Group were the reintroduction of tax depreciation on commercial and industrial buildings and the wage subsidy scheme.

Wage subsidy scheme

The wage subsidy scheme was designed to support employers adversely affected by COVID-19 whose revenues had declined by more than 30%, so they could continue to pay their employees. During the seven lockdown period, which commenced at the end of March 2020, the Group's physical stores were not permitted to open to the public; this resulted in a year on year decline in revenue of 67% during that period. The Group applied for the Government's wage subsidy scheme and received $67.8 million to support around 11,000 of its employees, which equated to 55% of the labour cost over the 12 week subsidy period (refer note 3.1).

Tax depreciation

The reintroduction of tax depreciation on buildings for tax purposes applies to the Group from 3 August 2020 with a depreciation rate set at 1.5% on a straight-line basis. For the year ended 2 August 2020, the tax base of the Group's buildings increased by $7.2 million. This reduced the difference between the accounting carrying value and the tax base, resulting in an increase in deferred tax assets and a reduction in the tax expense of $2.0 million (refer note 4.1).

Group's response to COVID-19 during the lockdown period

During the initial lockdown period when the duration of the lockdown and impact of COVID-19 was uncertain the Group embarked on several initiatives to reduce costs and improve the Group's liquidity. Among a raft of cash preservation initiative's the Group cancelld its interim dividend ($34.7 million - note 7.1), negotiated rent reductions and payment deferrals with its landlords ($10.0 million - note 10.2), cancelled the annual employee incentive scheme and reduced Directors' fees. The Group also secured $150 million of additional banking facilities, extending the total debt facilities available to $330 million (refer note 11.3).

Post lockdown

The Group benefitted from a surge in sales coming out of lockdown with sales up 18% in the fourth quarter compared to the same period last year, which was considered to be a consequence of government stimulus packages and pent up customer demand. The strength of trading post lockdown, combined with working capital improvements and the cost saving initiatives implemented during the lockdown period, bolstered the Group's liquidity position, this meant it could repay its fixed rate senior bond of $125 million (refer note 11.1) when it matured in June 2020 from cash reserves.

Derivatives - Interest rate swaps

The Group's net borrowings reduced by around $200 million compared to last year and at balance date the Group had cash on hand of $168 million. Without core borrowings, the Group's interest rate swaps were not fully effective as cash flow hedges, which meant the Group recognised a mark to market loss of $6.4 million on a portion of the derivatives that were considered ineffective as cash flow hedges (refer note 13.2).

Agile restructure

COVID-19 accelerated the Group's plans to transition to an Agile way of working. The Group partnered with the same consultancy firm used for the Rise transformation, on a similar fee basis. As part of the transition, the Group commenced a consultation process with its employees in June 2020, which resulted in a reduction in roles across both stores and the Group's head office of around 1,100 positions. The transition process also involved the closure of eight underperforming stores. The Group incurred costs of $22.2 million, which are detailed in note 5.0.

Other consequences

Management has also assessed the impact of COVID-19 on other aspects of the balance sheet. The Group increased inventory provisions by $13.0 million (refer note 8.1) following a detailed review of inventory to reflect management's best estimate of net realisable value based on the expected future economic conditions. A review of property, plant, equipment and intangible assets identified asset impairments associated with store closures and redundant assets from changes to ways of working. The Group recorded impairment expenses of $11.4 million (refer note 2.2).

NZX waiver

The Company received an NZX waiver that provided the Group with an additional 30 days to prepare and release this year's results. The extra time allowed the Group to complete its inventory cycle counts, post balance date, for stores which were unable to perform stocktakes during the seven week lockdown period. The results of these stocktakes are recognised in the year end results. The extra time also meant the Group was able to reduce the number of estimates used to determine redundancy accruals by accessing the most up to date information regarding the consultation process which continued after balance date (refer note 8.3).

1.6 Critical accounting judgements, estimates and assumptions

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

(a) Inventory (note 8.1)
(b) Trade and other payables (note 8.3)
(c) Property, plant equipment and software (notes 9.1 and 9.2)
(d) Lease liabilities and right of use assets (notes 10.1 and 10.2)
(e) Derivative financial instruments (note 13.2).

1.7 Non-GAAP financial information

The Group uses operating profit, earnings before tax and interest, unusual items and adjusted net profit to describe financial performance as it considers these line items provide a better measure of underlying business performance. These non GAAP measures are not prepared in accordance with NZ IFRS and may not be comparable to similarly titled amounts reported by other companies. The Group's policy regarding unusual items and adjusted net profit are detailed in note 5.0.

1.8 Subsequent events

On 12 August 2020, following the detection of community transmission of COVID-19 in Auckland, the Government imposed alert level 3 restrictions on the Auckland region and moved the rest of New Zealand to level 2. During the two and a half week period of level 3 restrictions, sales in the Auckland region declined 90% compared with the previous year and Group store sales were down 18%. These restrictions also caused additional delays to the completion of the Group's inventory cycle counts and disrupted the Group's Agile restructuring process. The inventory cycle counts were completed in mid-September 2020 and the Agile consultation process was substantially completed in early October 2020. Changes to COVID-19 alert levels impact the Group's operating activities however, these latest restrictions did not impact the Group's financial statements for the year ended 2 August 2020.

2.0 SEGMENT INFORMATION

2.1 Operating performance	Note	Revenue 2020	Revenue 2019	Operating Profit 2020	Operating Profit 2019	Retail Operating Margin 2020	Retail Operating Margin 2019
		$ 000	$ 000	$ 000	$ 000		
The Warehouse		1,706,036	1,705,687	96,280	85,075	5.6%	5.0%
Warehouse Stationery		268,845	268,592	22,764	16,669	8.5%	6.2%
Warehouse Segment		1,974,881	1,974,279	119,044	101,744	6.0%	5.2%
Noel Leeming		1,009,975	924,648	46,041	38,103	4.6%	4.1%
Torpedo7		190,971	172,474	(14,746)	(7,027)	-7.7%	-4.1%
TheMarket		1,450	-	(14,657)	(5,996)		
Other Group operations		6,673	8,508	(18,880)	(14,446)		
Inter-segment eliminations		(11,120)	(8,552)	-	-		
Group		3,172,830	3,071,357	116,802	112,378	3.7%	3.7%
Adjustments for NZ IFRS 16	10.3			40,959	-		
Operating profit from continuing operations				157,761	112,378		
Unusual items	5.0			(53,079)	(9,435)		
Earnings before interest and tax from continuing operations				104,682	102,943		

Retail Sales

Retail sales are recognised when the customer receives the goods which typically occurs at the point of sale for instore sales or where the goods are purchased online when the goods have been delivered to the customer. Revenue from the sale of goods is recognised at the fair value of the consideration received or receivable, net of returns, discounts and excluding GST.

Operating segments

The Group has four operating segments trading in the New Zealand retail sector and a start-up online marketplace venture. These segments form the basis of internal reporting used by senior management and the Board of Directors to monitor and assess performance and assist with strategy decisions. The Group has disclosed its segment operating profit performance on a basis that excludes the impact of adopting NZ IFRS 16 (refer note 10), which is consistent with the Group's internal reporting.

Each of the four main retail segments represents a distinct retail brand that operates throughout New Zealand. Customers can purchase product from the retail chains either online or through the Group's physical retail store network. The Group's store network currently has 92 (2019: 93) The Warehouse stores, 71 (2019: 70) Warehouse Stationery stores, 74 (2019: 77) Noel Leeming stores and 20 (2019: 18) Torpedo7 stores. The Warehouse predominantly sells general merchandise and apparel, Warehouse Stationery sells stationery products, Noel Leeming sells technology and appliance products and Torpedo7 sells sporting equipment.

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

2.2 Capital expenditure, depreciation and amortisation	Note	Impairment 2020	Impairment 2019	Depreciation and Amortisation 2020	Depreciation and Amortisation 2019	Capital Expenditure 2020	Capital Expenditure 2019
		$ 000	$ 000	$ 000	$ 000	$ 000	$ 000
The Warehouse segment		11,347	-	44,340	46,310	47,829	47,753
Noel Leeming		257	-	8,624	9,912	8,349	6,290
Torpedo7		5,083	5,478	1,846	1,453	3,138	3,986
TheMarket		-	-	1,924	1,200	3,362	3,641
Other Group operations		-	-	1,502	1,738	444	433
Property, plant, equipment and intangible assets		16,687	5,478	58,236	60,613	63,122	62,103
Right of use assets	10.1	1,576	-	96,416	-		
Reclassified as an unusual item		(6,912)	(5,478)	-	-		
Impairment, depreciation and amortisation expense		11,351	-	154,652	60,613		
Comprising							
Property, plant and equipment	9.1	8,659	-	45,366	50,371	32,162	34,676
Intangible assets	9.2	8,028	5,478	12,870	10,242	30,960	27,427
Property, plant, equipment and intangible assets		16,687	5,478	58,236	60,613	63,122	62,103

Asset impairment expenses reclassified as unusual items relate to the impairment of the Torpedo7 brand name of $2.545 million (2019: $5.478 million) and asset impairments ($4.367 million) related to store closures included as part of the Agile restructure costs (refer note 5.0).

2.3 Balance sheet information		Total Assets		Total Liabilities	
	Note	2020	2019	2020	2019
		$ 000	$ 000	$ 000	$ 000
The Warehouse segment		425,015	536,464	319,992	302,333
Noel Leeming		169,297	175,053	161,367	107,754
Torpedo7		49,701	63,694	19,627	20,247
TheMarket		8,687	6,906	3,733	1,940
Other Group operations		84,914	97,483	942	2,342
Operating assets/liabilities		737,614	879,600	505,661	434,616
Unallocated assets/liabilities					
Cash and borrowings	11.1	168,068	49,297	-	125,465
Derivative financial instruments	13.2	243	7,948	27,091	7,994
Right of use assets/Lease liabilities		774,175	-	934,788	-
Intangible goodwill and brands	9.2	72,956	75,501	-	-
Taxation assets/liabilities	4.2, 4.3	101,805	38,475	10,982	713
Total Group		1,854,861	1,050,821	1,478,522	568,788

3.0 INCOME AND EXPENSES

3.1 Other income	Note	2020	2019
		$ 000	$ 000
COVID-19 wage subsidy		67,768	-
COVID-19 landlord rent relief	10.2	8,246	-
Tenancy rents received		2,734	3,348
Other		5,171	4,977
Other income		83,919	8,325

COVID-19 Wage Subsidy

In March 2020, the Government announced a package of measures to support businesses through the impact of COVID-19 including the wage subsidy scheme. The scheme provided financial support to employers adversely affected by COVID-19 that experienced a minimum 30% decline in revenue, so they could continue to pay their employees over a 12 week period, and support workers to ensure they continued to receive an income and stay connected to their employer. The sales of the four main trading brands declined by 67% during the seven week lockdown period which commenced in March 2020 when the COVID-19 alert levels were set at levels 3 and 4 and the Group was unable to open its physical store network. The Group applied for the Government's wage subsidy scheme on behalf of around 11,000 employees and received $67.768 million in total support for its employees which equated to 55% of the labour cost over the 12 week period of the subsidy.

3.2 Employee expense	2020	2019
	$ 000	$ 000
Wages and salaries	549,522	493,514
Directors' fees	703	709
Performance based compensation	8,724	26,249
Equity settled share based payments expense	350	420
Employee expense	559,299	520,892

3.3 Other operating expenses	Note	2020	2019
		$ 000	$ 000
Other operating expenses include:			
Provision for bad and doubtful debts expense		3,221	2,142
Loss on disposal of plant and equipment		1,294	1,369
Asset impairments	2.2	11,351	-
Donations		134	89
Net foreign currency exchange (gain)/loss		(16)	64

3.4 Auditors' fees	2020	2019
	$ 000	$ 000
Auditing the Group financial statements	620	520
Reviewing the half year financial statements	93	90
Other services	46	67
Total fees paid to PricewaterhouseCoopers	759	677

Audit Fees - Corporate Governance

Fees paid to PricewaterhouseCoopers for other services relate to treasury market analysis, agreed upon procedures at the Annual Shareholders' Meeting and a tax audit for an overseas subsidiary. In accordance with the Group's policies regarding audit governance and independence, this work was approved by the Group's Audit and Risk Committee. The Group's policy permits the audit firm to provide non-audit services that are not considered to be in conflict with the preservation of the independence of the auditor, subject to Audit and Risk Committee approval.

4.0 TAXATION

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

4.1 Taxation - Income statement	Note	2020	2019
		$ 000	$ 000
Profit before tax from continuing operations		57,972	94,064
Gain/(Loss) before tax from discontinued operations		43	(2,714)
Profit before tax		58,015	91,350
Taxation calculated at 28%		16,244	25,578
Adjusted for the tax effect of:			
Non deductible expenditure		693	804
Income tax relating to building depreciation	5.0	(2,025)	-
Income tax over provided in prior year		(595)	(547)
Income tax expense		14,317	25,835
Adjust for income tax expense attributable to losses from discontinued operations		(12)	786
Income tax expense attributable to continuing operations		14,305	26,621
Income tax expense comprises:			
Current year income tax payable	4.2	30,224	20,978
Deferred taxation	4.3	(15,907)	4,857
Income tax expense		14,317	25,835

Income taxation

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

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

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

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

Goods and services tax (GST)

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

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

4.2 Balance sheet - Current taxation liability	Note	2020	2019
		$ 000	$ 000
Opening balance		(713)	(6,388)
Foreign exchange movement		3	-
Current year income tax payable	4.1	(30,224)	(20,978)
Net taxation paid		19,879	26,540
Transfer from cash flow hedge reserve		(63)	(162)
Supplementary dividend tax credit		136	275
Closing balance		(10,982)	(713)

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

4.3 Balance sheet - Deferred taxation	Note	Brand Names	Leases	Property, Plant Equipment and Software	Employee Provisions	Derivatives	Other	Total
For the 53 week period ended 2 August 2020		$ 000	$ 000	$ 000	$ 000	$ 000	$ 000	$ 000
Opening balance		11,843	-	6,128	13,425	415	6,664	38,475
Adjustment on adoption of NZ IFRS 16	10.4	-	42,782	-	-	-	-	42,782
Charged/(credited) to the income statement	4.1	3,870	(571)	3,098	5,923	1,681	1,906	15,907
Net charged to other comprehensive income		-	-	-	-	4,648	(7)	4,641
Closing balance		15,713	42,211	9,226	19,348	6,744	8,563	101,805
For the 52 week period ended 28 July 2019								
Opening balance		15,387	-	6,229	13,933	(4,391)	7,260	38,418
Adjustment on adoption of NZ IFRS 15		-	-	-	-	-	108	108
Charged/(credited) to the income statement	4.1	(3,544)	-	(101)	(508)	-	(704)	(4,857)
Net charged to other comprehensive income		-	-	-	-	4,806	-	4,806
Closing balance		11,843	-	6,128	13,425	415	6,664	38,475

5.0 ADJUSTED NET PROFIT

Adjusted net profit reconciliation	Note	2020	2019
		$ 000	$ 000
Adjusted net profit		80,744	74,103
Add back: Unusual items			
Gain on property disposals		88	11,761
Restructuring costs - Rise		(22,006)	(15,718)
Restructuring costs - Agile		(22,189)	-
Change in fair value of derivatives that are not hedge effective	13.2	(6,427)	-
Brand impairment (Torpedo7)	9.2	(2,545)	(5,478)
Unusual items before taxation and NZ IFRS 16 adjustments		(53,079)	(9,435)
Adjustments for NZ IFRS 16		(154)	-
Income tax on the unusual items above		14,905	2,642
Income tax relating to building depreciation	4.1	2,025	-
Unusual items after taxation		(36,303)	(6,793)
Net profit from continuing operations attributable to shareholders of the parent		44,441	67,310

Certain transactions can make the comparison of profits between years difficult. The Group uses adjusted net profit as a key indicator of performance and considers it a better measure of underlying business performance. Adjusted net profit makes allowance for the after tax effect of unusual items which are not directly connected with the Group's normal trading activities. The Group defines unusual items as any gains or losses from property disposals, goodwill and brand impairment, costs relating to business acquisitions or disposals, ineffective hedge derivatives and costs connected with restructuring the Group. Following the adoption of NZ IFRS 16 (refer note 10.0) the non-cash impact relating to the new lease accounting standard are also excluded from adjusted net profit.

Unusual items

Restructuring costs - Rise

(a) The three year transformation programme known internally as 'Rise' concluded in January 2020. The programme changed the Group's operating model and included shifting The Warehouse away from a 'Hi-Lo' pricing model to an 'Every Day Low Price' model. The changes drove an improvement in financial performance and focused on simplification to reduce complexities and costs, reduce working capital, drive efficiencies and generate greater customer relevance.

The Group partnered with a management consultancy firm to assist with the transformation process and implementation. Fees paid to the consultants were a combination of fixed and success fees. The success fees were only payable when it could be demonstrated that the transformation initiatives had achieved the expected outcomes.

Restructuring costs - Agile

(b) In February 2020 the Group commenced a plan to move the Group to an Agile way of working, shifting from a traditional hierarchical organisation structure to a flatter structure. The plan also involves rationalising the Group's store network by combining The Warehouse and Warehouse Stationery stores within one location and closing underperforming stores. As a result of the shift to Agile, the Group will reduce its number of employees across both stores and the Group's head office and incur redundancy costs ($13.652 million), and has also incurred asset impairment costs connected with the store closures ($4.367 million). The Group has partnered with the same consultancy firm which helped with the 'Rise' transformation programme to assist with the Agile transition, based on a similar fee arrangement.

6.0 EARNINGS PER SHARE

Earnings per share calculation	Note	2020	2019
Net profit attributable to shareholders of the parent ($ 000s)		44,472	65,382
Net profit from continuing operations attributable to shareholders of the parent ($ 000s)		44,441	67,310
Adjusted net profit ($ 000s)	5.0	80,744	74,103
Basic			
Weighted average number of ordinary shares (net of treasury shares) on issue (000s)		345,286	345,229
Basic earnings per share (cents)		12.9	18.9
Basic earnings per share from continuing operations (cents)		12.9	19.5
Adjusted basic earnings per share (cents)		23.4	21.5

Earnings per share (EPS) is the amount of post tax profit attributable to each share. Basic EPS is calculated by dividing net profit attributable to shareholders by the weighted average number of ordinary shares (net of treasury shares) outstanding during the year. Continuing and adjusted basic EPS are similarly calculated using continuing and adjusted net profit as the numerator.

7.0 DIVIDENDS

7.1 Dividends paid	2020	2019	2020	2019
	$ 000	$ 000	CENTS PER SHARE	CENTS PER SHARE
Prior year final dividend	27,747	20,811	8.0	6.0
Interim dividend	-	31,216	-	9.0
Total dividends paid	27,747	52,027	8.0	15.0

Dividend policy

The Board typically declares two dividends annually in respect of the half year (interim dividend) and full year results (final dividend) based on the Group's dividend policy of distributing between 75% and 85% of the Group's adjusted net profit.

In March 2020 as a result of the uncertainty around the impact of COVID–19 at that time, the Board decided it was in the best interest of the Group to cancel its previously declared interim dividend ($34.684 million – 10.0 cents per share). The Group has since suspended the dividend policy for the current year and hopes to return to paying dividends in line with its dividend policy for the next financial year.

All dividends paid were fully imputed.

7.2 Dividend policy reconciliation	Note	2020	2019	2020	2019
		$ 000	$ 000	CENTS PER SHARE	CENTS PER SHARE
Interim dividend		-	31,216	-	9.0
Final dividend (declared after balance date)		-	27,747	-	8.0
Total dividends declared in respect of the current financial year		-	58,963	-	17.0
Group adjusted net profit	5.0	80,744	74,103		
Pay-out ratio (%)		0.0%	79.6%		

No dividends were declared for the current financial year.

7.3 Imputation credit account	2020	2019
	$ 000	$ 000
Imputation credits at balance date available for future distribution	133,689	113,294

The above amounts represent the balance of the Group's imputation credit account at balance date, adjusted for imputation credits that will arise from the payment of the remaining current year's provisional income taxation.

8.0 WORKING CAPITAL

8.1 Inventory	2020	2019
	$ 000	$ 000
Finished goods	382,380	478,234
Inventory provisions	(36,943)	(23,968)
Retail stock	345,437	454,266
Goods in transit from overseas	48,173	63,492
Inventory	393,610	517,758

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

Significant judgements and estimates

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

Goods in transit from overseas

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

8.2 Trade and other receivables	2020	2019
	$ 000	$ 000
Trade receivables	40,035	42,335
Prepayments	14,764	13,479
Property disposal proceeds	-	11,050
Rebate accruals and other debtors	29,464	23,806
Trade and other receivables	84,263	90,670

Trade receivables arise from sales made to customers on credit or through the collection of rebates from suppliers not otherwise deducted from suppliers' payable accounts. Trade receivables are non-interest bearing and are generally on 30 to 60 day terms. Trade receivables are recognised based on the value of the invoice sent to the customer and adjusted for expected credit losses to provide for future unrecovered debts. The expected collectability of trade and other receivables is reviewed on an ongoing basis.

8.3 Trade and other payables	2020	2019
	$ 000	$ 000
Local trade creditors and accruals	285,226	211,868
Foreign currency trade creditors	55,810	76,869
Goods in transit creditors	19,669	20,508
Capital expenditure creditors	1,250	2,641
Goods and services tax	14,329	14,345
Reward schemes, Lay-bys, Christmas club deposits and gift vouchers	20,503	17,393
Payroll accruals	24,018	8,951
Trade and other payables	420,805	352,575

Trade payables represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are normally unsecured and are usually settled within 60 to 120 days of recognition. Due to the short term nature of these payables, their carrying value is assumed to approximate their fair value.

Significant judgements and estimates

Payroll accruals include an accrual ($4.141 million) and the employee entitlement provision includes a provision ($9.124 million – refer note 8.4) for redundancy payments that arise from the Group's shift to an Agile operating model (refer note 5.0). The employee consultation process regarding the Agile restructure commenced in June 2020 and the outcome of this process was largely confirmed prior to the completion of the financial statements. In a few instances the potential outcome of the employee consultation process was unknown and the Group has used its judgement to estimate the residual liability ($1.369 million) which forms part of the employee entitlement provision.

8.4 Provisions	Current		Non-current		Total	
	2020	2019	2020	2019	2020	2019
	$ 000	$ 000	$ 000	$ 000	$ 000	$ 000
Employee entitlements	53,568	54,204	16,048	14,490	69,616	68,694
Make good provision	834	942	7,817	6,780	8,651	7,722
Sales return provision	6,589	5,625	-	-	6,589	5,625
Total provisions	60,991	60,771	23,865	21,270	84,856	82,041

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

Employee entitlements

(i) Annual leave and sick leave

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

(ii) Performance based compensation

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

(iii) Long service leave

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

Make good provision

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

Sales return

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

9.0 NON CURRENT ASSETS

9.1 Property, plant and equipment		Land and Buildings		Plant and Equipment		Work in Progress		Total	
	Note	2020	2019	2020	2019	2020	2019	2020	2019
		$ 000	$ 000	$ 000	$ 000	$ 000	$ 000	$ 000	$ 000
Cost		93,498	91,018	651,544	638,828	9,702	16,638	754,744	746,484
Impairment & accumulated depreciation		(13,086)	(11,840)	(520,497)	(496,040)	-	-	(533,583)	(507,880)
Opening carrying amount		80,412	79,178	131,047	142,788	9,702	16,638	221,161	238,604
Additions	2.2	229	3,594	30,850	38,018	1,083	(6,936)	32,162	34,676
Disposals		(200)	(1,112)	(1,967)	(636)	-	-	(2,167)	(1,748)
Impairment	2.2	-	-	(8,659)	-	-	-	(8,659)	-
Depreciation	2.2	(1,107)	(1,248)	(44,259)	(49,123)	-	-	(45,366)	(50,371)
Closing carrying amount		79,334	80,412	107,012	131,047	10,785	9,702	197,131	221,161
Cost		93,527	93,498	638,450	651,544	10,785	9,702	742,762	754,744
Impairment & accumulated depreciation		(14,193)	(13,086)	(531,438)	(520,497)	-	-	(545,631)	(533,583)
Closing carrying amount		79,334	80,412	107,012	131,047	10,785	9,702	197,131	221,161

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

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

• Freehold land	indefinite	• Freehold buildings	50 - 100 years
• Plant and equipment	3 - 15 years	• Work in progress	not depreciated

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

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

Significant judgements and estimates

The Group considered the wider impacts of the outbreak of COVID-19 on the economy and the Agile restructure (refer note 5.0) as part of the annual impairment review of the carrying amounts of property, plant, equipment and software (refer note 9.2). This review involved making judgements and estimates to determine individual and collective asset recoverable amounts and the identification of obsolete and redundant assets which arise from changes to the Group's ways of working.

Notes to the Financial Statements - Operating Assets and Liabilities

For the 53 week period ended 2 August 2020

9.2 Intangible assets		Goodwill		Brand Names		Computer Software		Total	
	Note	2020	2019	2020	2019	2020	2019	2020	2019
		$ 000	$ 000	$ 000	$ 000	$ 000	$ 000	$ 000	$ 000
Cost		94,380	94,380	23,523	23,523	149,035	126,689	266,938	244,592
Impairment & accumulated amortisation		(36,924)	(36,924)	(5,478)	-	(99,024)	(92,300)	(141,426)	(129,224)
Opening carrying amount		57,456	57,456	18,045	23,523	50,011	34,389	125,512	115,368
Additions	2.2	-	-	-	-	30,960	27,427	30,960	27,427
Disposals		-	-	-	-	(8)	(1,563)	(8)	(1,563)
Impairment	2.2	-	-	(2,545)	(5,478)	(5,483)	-	(8,028)	(5,478)
Amortisation	2.2	-	-	-	-	(12,870)	(10,242)	(12,870)	(10,242)
Closing carrying amount		57,456	57,456	15,500	18,045	62,610	50,011	135,566	125,512
Cost		94,380	94,380	23,523	23,523	151,597	149,035	269,500	266,938
Impairment & accumulated amortisation		(36,924)	(36,924)	(8,023)	(5,478)	(88,987)	(99,024)	(133,934)	(141,426)
Closing carrying amount		57,456	57,456	15,500	18,045	62,610	50,011	135,566	125,512

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

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

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

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

Torpedo7 brand impairment
The Group has taken the decision to fully write off the brand name held by Torpedo7 of $2.545 million (2019: $5.478 million). Several years of underperformance relative to plan, a subdued economic outlook and a pathway to profit improvement which is not without execution risk has led to this decision.

Goodwill and brand impairment testing
The Group performs an annual impairment test of its goodwill and brand intangible assets which involves comparing the recoverable amount of the assets to the carrying values. The recoverable amounts are calculated using the 'fair value less costs to sell' method. The discounted cash flow valuation method is based on projections regarding future operating performance. The Group considers a wide range of factors including the Group's financial budgets, strategic plans, external benchmarks and historical performance, to formulate the future cash flow projections. The Group also engages external advisors to determine appropriate discount rates and long term growth rates, integral to the valuations. The valuations are then scaled back to align with the average values assessed by a selection of the Group's external equity research analysts.

The Group's goodwill and brand assets are allocated to cash generating units (CGUs) and form the basis for impairment testing. CGUs represent the lowest level within the Group at which the assets are monitored for internal management purposes. Details of the carrying amounts of goodwill and brand assets and the allocation to CGUs, along with the key assumptions used in the impairment tests to extrapolate cash flows beyond the five year projection period, are set out in the table below.

Impairment testing	Noel Leeming		The Warehouse	
	2020	2019	2020	2019
	$ 000	$ 000	$ 000	$ 000
Goodwill	31,776	31,776	25,680	25,680
Brand names	15,500	15,500	-	-
Closing carrying amount	47,276	47,276	25,680	25,680
Key assumptions				
Terminal year EBIT margin (%)	4.0	5.1	6.0	7.1
Terminal year growth rate (%)	1.3	1.5	1.3	1.5
Post-tax discount rate (%)	9.7	9.3	8.5	8.5

Operating margin represents earnings before interest, taxation, unusual items and the impact of NZ IFRS 16. The Warehouse segment also includes the Warehouse Stationery business; the operating margin assumptions for this business division are different from those of the primary business at 7.0% (2019: 8.6%). The annual impairment testing for both Noel Leeming and The Warehouse CGUs indicated ample headroom and that the carrying amounts of the attributed goodwill and brand assets were not impaired.

10.0 LEASE LIABILITIES AND RIGHT OF USE ASSETS

New accounting policy

A 'lease liability' and a corresponding 'right of use' asset is recognised when the Group commences a lease with a term exceeding 12 months and has sufficient value not to be characterised as a low value lease. The initial lease liability and corresponding 'right of use' asset represents the present value of future lease payments discounted using the Groups incremental borrowing rate over the lease term including any contractual lease extension options considered reasonably certain to be exercised. The future lease payments adjust for contractual fixed rate lease payment adjustments but no adjustment is made for inflation indexed lease payment increases.

Lease payments are allocated between the lease liability and the finance cost. The finance cost is charged to the income statement over the lease period to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right of use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight line basis.

The Group adopted NZ IFRS 16 'Leases' from the commencement of the current year, which replaced the previous guidance in NZ IAS 17 for lease accounting. On adoption of NZ IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under NZ IAS 17. These liabilities were measured at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate at the date of transition (28 July 2019). The Group's weighted average incremental borrowing rate applied to the lease liabilities on transition was 4.23%.

The Group used the 'modified retrospective approach' for its transition, which does not permit the Group to restate comparative amounts for the periods prior to adoption. This transition approach allowed the Group to use hindsight to determine the commencement date of leases by removing the requirement to retrospectively assess the likelihood that options to extend or terminate leases would be exercised and to use the Group's incremental borrowing rate set at the date of transition. There was also an optional exemption to exclude short term leases and leases of low value assets which the Group elected to apply.

The table below details the movements in the 'right-of-use' assets for the period following the adoption of NZ IFRS 16 through to balance date.

10.1 Right of use assets	Note	Cost	Accumulated Depreciation	Carrying Amount
For the 53 week period ended 2 August 2020		$ 000	$ 000	$ 000
Carrying amount at transition	10.4	1,510,584	(676,093)	834,491
Additions		66,202	-	66,202
Depreciation		-	(96,416)	(96,416)
Reassessment of lease terms	10.2	(21,960)	-	(21,960)
Lease impairments		-	(1,576)	(1,576)
Lease surrenders and terminations		(56,819)	50,253	(6,566)
Closing carrying amount		1,498,007	(723,832)	774,175

The table below details the movements in the lease liabilities for the year following the adoption of NZ IFRS 16 and provides a reconciliation between the liabilities recognised at the date of transition and the lease commitments (calculated in accordance with NZ IAS 17) disclosed last year.

10.2 Lease liabilities	Note	2020
For the 53 week period ended 2 August 2020		$ 000
Operating lease commitment disclosed at 28 July 2019		661,508
Adjustments as a result of different treatment of extension and termination options		601,863
Calculation refinements		1,896
The above adjustments discounted at the Group's incremental borrowing rate at transition		(275,054)
Carrying amount at transition	10.4	990,213
Additions		66,202
Interest for the period		41,113
Reassessment of lease terms		(21,960)
COVID–19 landlord rent relief	3.1	(8,246)
Lease repayments		(124,946)
Lease surrenders and terminations		(7,588)
Closing carrying amount		934,788

Reassessment of lease terms

The Groups shift to an Agile operating model combined with the impacts of COVID–19 accelerated plans to rationalise the store network and caused the Group to reassess whether it was reasonably certain to exercise store lease extension options, or termination options. The result of this review indicated that a number of leases will be terminated at the end of the next lease renewal period, which was earlier than previously planned.

COVID–19 Landlord rent relief

The Group negotiated rent concessions with its landlords as a result of the temporary store closures caused by the COVID–19 pandemic. These concessions included reduced rents and payment deferrals. In May 2020 the International Accounting Standards Board issued an amendment to NZ IFRS 16 which allowed the Group not to account for rent concessions as lease modifications if they are a consequence of COVID–19. The Group applied this practical expedient to account for all the landlord rent concessions, which meant the rent reductions were accounted for as negative variable lease payments ($8.246 – million note 3.1) and the payment deferrals ($1.713 million) as timing differences, reducing the amount of lease repayments.

Lease liability maturity analysis	Gross Lease Payments	Interest	Carrying Amount
As at 2 August 2020	$ 000	$ 000	$ 000
Within one year	143,950	(37,483)	106,467
One to two years	116,756	(33,871)	82,885
Two to five years	329,939	(80,767)	249,172
Beyond five years	591,554	(95,290)	496,264
Total lease liability	1,182,199	(247,411)	934,788
Current lease liability			106,467
Non-current lease liability			828,321
Total lease liability			934,788

10.3 Profit impact of NZ IFRS 16	Excluding NZ IFRS 16	Impact of NZ IFRS 16	Reported Result
For the 53 week period ended 2 August 2020	$ 000	$ 000	$ 000
Gross profit	1,034,880	-	1,034,880
Other income	75,673	8,246	83,919
Employee expenses	(559,299)	-	(559,299)
Depreciation and amortisation expenses	(58,236)	(96,416)	(154,652)
Other operating expenses	(376,216)	129,129	(247,087)
Operating profit from continuing operations	116,802	40,959	157,761
Unusual items	(55,271)	2,192	(53,079)
Earnings before interest and tax from continuing operations	61,531	43,151	104,682
Net interest expense	(5,597)	(41,113)	(46,710)
Profit before tax from continuing operations	55,934	2,038	57,972
Income tax expense	(13,734)	(571)	(14,305)
Net profit for the period from continuing operations	42,200	1,467	43,667

The impact of NZ IFRS 16 on the income statement decreases operating expenses by removing the lease expense previously calculated in accordance with NZ IAS 17, increases the depreciation expense for the depreciation on the new 'right-of-use' assets, increases 'other income' for the COVID-19 rent relief and increases the interest expense for the interest element connected with repayment of the new lease liabilities. The adjustment to unusual items relates to the impairment of onerous leases and differences in the accounting treatments. Where the Group intends to leave a store prior to the expected lease expiry, NZ IFRS 16 requires the 'Right of Use' asset to be impaired, whereas the previous accounting treatment required the recognition of an onerous lease obligation, which has a different value from the 'right of use' asset impairment.

	As at 2 August 2020			As at Transition 28 July 2019		
10.4 Balance Sheet impact of NZ IFRS 16	Excluding NZ IFRS 16	Impact of NZ IFRS 16	Reported Result	Prior to Adoption	Impact of NZ IFRS 16	Transition Amounts
	$ 000	$ 000	$ 000	$ 000	$ 000	$ 000
Right of use assets	-	774,175	774,175	-	834,491	834,491
Deferred taxation	59,594	42,211	101,805	38,475	42,782	81,257
All other assets	978,881	-	978,881	1,012,346	-	1,012,346
Total assets	1,038,475	816,386	1,854,861	1,050,821	877,273	1,928,094
Borrowings	-	-	-	125,465	(50)	125,415
Trade and other payables	436,127	(6,198)	429,929	352,575	(2,880)	349,695
Provisions - onerous leases	3,661	(3,661)	-			
Lease liabilities	-	934,788	934,788	-	990,213	990,213
All other liabilities	113,805	-	113,805	90,748	-	90,748
Total liabilities	553,593	924,929	1,478,522	568,788	987,283	1,556,071
Net assets/Equity	484,882	(108,543)	376,339	482,033	(110,010)	372,023

In addition to recognising the new 'right of use' assets and related 'lease liabilities', adjustments were made to 'trade and other payables' to remove operating lease incentives and timing accruals and to remove 'onerous leases' which were calculated in accordance with NZ IAS 17. An adjustment is also made to recognise the effect of deferred taxation on the adjustments.

10.5 Changes to cash flow presentation	2020
For the 53 week period ended 2 August 2020	$ 000
Interest paid on leases (operating activities)	41,113
Lease principal repayments (financing activities)	83,833
Total cash outflows from leases	124,946

Prior to the adoption of NZ IFRS 16, lease payments were included in payments to suppliers within operating activities. Lease payments following the adoption of NZ IFRS 16 are reclassified between the interest component, which is treated as an operating cash flow, and the principal repayments, which are classified as financing activities.

11.0 BORROWINGS

Net debt in the table below excludes lease liabilities recognised under NZ IFRS 16 (refer note 10.2). Net debt including these lease liabilities is $766.720 million.

11.1 Net debt	Note	2020	2019
		$ 000	$ 000
Cash on hand and at bank		168,068	49,297
Lease liabilities (NZ IAS 17)	10.4	-	50
Fixed rate senior bond (coupon: 5.30%)		-	125,000
Fair value adjustment relating to senior bond interest rate hedge		-	799
Unamortised capitalised costs on senior bond issuance		-	(384)
Current borrowings		-	125,465
Net debt/(Cash in funds)		(168,068)	76,168

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

Cash on hand and at bank

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

Fixed rate senior bond

The Group issued a five year fixed rate senior bond on the New Zealand Stock Exchange in June 2015 with interest payable every six months (15 June and 15 December) based on a 5.30% coupon. The bond was fully repaid from cash reserves in June 2020 when the bond matured.

11.2 Net interest expense	Note	2020	2019
		$ 000	$ 000
Interest on deposits and use of money interest received		(713)	(436)
Interest on bank borrowings		127	2,263
Interest on fixed rate senior bond		6,210	7,043
Interest on leases	10.2	41,113	-
Net interest expense		46,737	8,870
Less interest attributable to discontinued operations		(27)	9
Net interest expense from continuing operations		46,710	8,879

11.3 Bank facilities	2020	2019
	$ 000	$ 000
Bank debt facilities	330,000	180,000
Bank facilities used	-	-
Unused bank debt facilities	330,000	180,000
Letters of credit facilities	18,000	28,000
Letters of credit	(2,249)	(2,467)
Unused letter of credit facilities	15,751	25,533
Total unused bank facilities	345,751	205,533

In addition to the $330 million (2019: $180 million) of committed bank debt facilities, the Group has seasonal credit facilities (three months) of $50 million (2019: $50 million) which commence in mid September each year to accommodate the increased funding demands during the Groups peak funding period.

12.0 EQUITY

12.1 Capital management

Capital is defined by the Group to be the total equity as shown in the balance sheet. The Group's capital management objectives are to safeguard the Group's ability to continue as a going concern, to provide an appropriate rate of return to shareholders and to optimise the Group's cost of capital. The Group regularly reviews its capital structure and may make adjustments by means including changes to the Group's dividend pay-out ratio, issue of new shares, debt issuance, sale of assets or a combination of these. The Group's current dividend policy is based on distributing between 75% to 85% of the adjusted net profit back to shareholders (refer note 7.0).

The adoption of the new NZ IFRS 16 lease accounting standard (refer note 10.0) in the current year significantly increased book gearing as new lease liabilities were recognised on the balance sheet. This new standard is non-cash in nature and for internal purposes and for testing debt covenant compliance with the Group's external funding providers, these new lease liabilities and the associated interest expense are excluded from the Group's internal gearing and debt covenant calculations.

The Group monitors gearing based on compliance with its debt covenants and had previously been comfortable to maintain gearing levels of between 20% to 40% however, this changed as a result of the impacts of COVID–19. The consequences of cash preservation measures taken in response to COVID–19, saw the Groups net borrowings reduced by around $200 million compared which last year and at balance date the Group had cash on hand of $168 million. In the current environment where there is increased economic uncertainty, the Board is comfortable to have higher levels of liquidity, and in addition to repaying all borrowings the Group has increased its committed bank debt facilities from $180 million to $330 million (refer note 11.3). The Group has also received a waiver from its funding providers which means it is not required to comply with the interest cover debt covenant for the nine month period ending 1 August 2021 subject to the consent of the funding providers to allow the declaration of any shareholder distributions during this period.

Externally imposed capital requirements

The trust deed provides a guarantee to its funding providers that the parent and its guaranteeing Group companies will comply with certain quarterly debt ratios and restrictive covenants. The underlying basis for the calculation of these ratios remained unchanged following the adoption of the new NZ IFRS 16 lease accounting standard with the impact of the new accounting standard carved out of the ratio calculations. The two principal covenants are:

Debt covenant ratios at balance date	Quarterly covenant requirement	2020	2019
Group book gearing ratio (percentage)	will not exceed 60% in the first quarter ending October or exceed 50% in each of the remaining three quarters of the year	-	13.7
Group book interest cover (times cover)	will not be less than 2 times operating profit	20.9	12.7

The Group had no external borrowings at balance date, which meant the book gearing ratio was zero. The Group was in compliance with all aspects of the negative pledge covenants throughout the current and previous financial year.

12.2 Contributed equity	Contributed equity		Ordinary shares	
	2020	2019	2020	2019
	$000	$000	000	000
Share capital	365,517	365,517	346,843	346,843
Treasury shares	(5,456)	(5,456)	(1,557)	(1,557)
Contributed equity	360,061	360,061	345,286	345,286

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

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

Treasury shares	Treasury shares		Ordinary shares	
	2020	2019	2020	2019
	$000	$000	000	000
Opening balance	5,456	6,060	1,557	1,793
Ordinary shares issued to settle share rights plan obligations	-	(604)	-	(236)
Closing balance	5,456	5,456	1,557	1,557

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

Notes to the Financial Statements - Financing and Capital Structure

For the 53 week period ended 2 August 2020

12.3 Reserves	2020	2019
	$000	$000
Cash flow hedge reserve	(13,017)	(1,067)
De-designated derivative reserve	-	(163)
Hedge reserves	(13,017)	(1,230)
Foreign currency translation reserve	(170)	14
Total reserves	(13,187)	(1,216)

Cash flow hedge reserve

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

De-designated derivative reserve

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

Foreign currency translation

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

12.4 Minority interest	2020	2019
	$000	$000
Opening balance	719	879
Adjustment on adoption of NZ IFRS 16	(38)	-
Net (loss)/profit attributable to minority interest	(774)	133
Share rights charged to the income statement	350	357
Share rights vested	(922)	(471)
Dividends paid to minority shareholders	(129)	(179)
Closing balance	(794)	719

Minority interest reserve

A minority interest is an ownership position in a Group subsidiary where the shareholder owns less than 50% of outstanding shares and has no control over decisions. Minority interests are measured based on the minority shareholder's proportionate share of the net asset value of the subsidiary and also includes the accumulated value of unvested share rights in the minority subsidiary which have been granted and recognised as an employee share based payment expense.

The fair value of share rights granted in a subsidiary is measured at grant date and recognised as an employee share based payment expense over the vesting period with a corresponding increase in the minority interest reserve. Upon vesting of these share rights, the balance of the minority interest reserve relating to the share rights is offset against the proportionate share of the net asset value of the subsidiary acquired by the minority shareholder, with any difference in the value attributed to settling the commitment transferred to retained earnings.

At balance date the Group's minority interests represent a 50% (2019: 50%) minority shareholding held in Chocolate Works and a 10.7% (2019: 5.3%) shareholding and associated share rights in TheMarket.com (TMC). The TMC minority shareholders increased their shareholdings in March 2020 in accordance with the employee share rights plan detailed below.

TheMarket.com share rights plan

Share rights were provided as a performance incentive to key executives in the TMC, an online marketplace start-up venture. In accordance with the share plan, participants were collectively transferred 53,333 TMC shares in June 2019 (Tranche 1) and 53,333 TMC shares in March 2020 (Tranche 2), and are entitled to receive a final tranche of 53,333 shares in March 2021 (Tranche 3), subject to certain conditions, which include continued employment. The vested sharesrights were independently valued at $5.00 and $6.37 per share at the date of vesting in June 2019 and March 2020 respectively. If the entitlements fully vest it will provide the participants with a minority shareholding of up to 16% in TMC.

The share right plan also grants the participants put options over a proportion of their Tranche 2 and Tranche 3 TMC shares, which can be exercised to fund the participant tax obligations arising under the plan; and a further put option over the participant's entire TMC shareholding, exercisable during the three years following March 2021 or within three months of certain 'good leaver' events, such as death or incapacity. If the put option is exercised, the Group is required to purchase the TMC shares at a price based on the fair value of the shares at that time, in consideration for providing the participant with ordinary shares in the Group of equivalent value (using the volume weighted average market price of the Group's shares).

13.0 FINANCIAL RISK MANAGEMENT

13.1 Financial risk factors

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

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

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

13.2 Derivative financial instruments	Currency Contracts		Interest Rate Swaps		Total	
	2020	2019	2020	2019	2020	2019
	$ 000	$ 000	$ 000	$ 000	$ 000	$ 000
Current assets	243	7,071	-	877	243	7,948
Current liabilities	(17,624)	(939)	(9,467)	-	(27,091)	(939)
Non-current liabilities	-	-	-	(7,055)	-	(7,055)
Total derivative financial instruments	(17,381)	6,132	(9,467)	(6,178)	(26,848)	(46)
Classified as:						
Cash flow hedges	(15,040)	5,518	(3,040)	(7,055)	(18,080)	(1,537)
Fair value hedges	(2,341)	614	-	877	(2,341)	1,491
Fair value of derivatives that are not hedge effective	-	-	(6,427)	–	(6,427)	-
Total derivative financial instruments	(17,381)	6,132	(9,467)	(6,178)	(26,848)	(46)

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

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

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

Cash flow hedge

The Group applies cash flow hedge accounting for hedging variable interest on borrowings and managing the currency risk associated with purchasing inventory in foreign currencies. The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity in the cash flow hedge reserve. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

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

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

Fair value hedge

The Group applies fair value hedge accounting for hedging fixed interest on borrowings and managing the currency risk associated with foreign currency trade creditors. Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributed to the hedged risk. If the hedge no longer meets the criteria for hedge accounting, or the hedge is not fully effective, then the hedge or portion of the hedge which is not effective is recognised immediately in the income statement as either an interest expense or foreign exchange gain or loss, based on the nature of the hedged risk.

Derivatives that do not qualify for hedge accounting

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

Significant judgements and estimates

Valuation

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

Hedge effectiveness

When calculating the hedge effectiveness of the Group's currency derivatives, the Group is required to forecast the next year's expected foreign currency spend to test if the hedged transactions are still highly probable to occur. The time horizon was extended to five years when it came to testing the hedge effectiveness of the Group's interest rate swaps. The Group considers a wide range of factors, including it's financial budgets, strategic plans, external benchmarks and historical performance to formulate the future cashflow projections. The results of the hedge effectiveness tests indicated that the Group's interest rate swaps were not fully effective over the five year duration of the cover period, which has caused the Group to reclassify the hedges out of the cash flow hedge reserve and recognise the ineffective portion of these swaps as an expense ($6.427 million).

13.3 Liquidity risk

Liquidity risk arises from financial liabilities of the Group and the Group's subsequent ability to meet the obligation to repay these financial liabilities as and when they arise. The Group's liquidity position fluctuates throughout the year, with the liquidity position is at its strongest immediately after the Christmas trading period. The Group monitors rolling forecasts of the Group's liquidity position based on expected cash flows.

The table below details the Group's financial liabilities and derivatives. The Group closed-out the interest rate swaps early in August 2020 and the remaining liabilities are payable within one year.

Liabilities/(Assets)	Note	2020	2019
		$ 000	$ 000
Borrowings	11.1	-	125,465
Trade and other payables	8.3	420,805	352,575
Derivatives - Currency contracts	13.2	17,381	(6,132)
Derivatives - Interest rate swaps	13.2	9,467	6,178
Financial liabilities and derivatives		447,653	478,086

The table above excludes the Group's lease liabilities; a maturity analysis of these liabilities are detailed in note 10.2.

13.4 Credit risk

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

The Group places its cash and short-term investments and derivatives with high credit quality financial institutions approved by Directors and in accordance with specified treasury policy limits. The Group's treasury policy requires bank counter parties to have a minimum Standard & Poor's credit rating of A (2019: A).

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

13.5 Market risk

Foreign exchange risk

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

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

Currency position at balance date	Carrying value		Notional amount (NZD)		Average exchange rate		12 month hedge level	
	2020	2019	2020	2019	2020	2019	2020	2019
	$ 000	$ 000	$ 000	$ 000	CENTS	CENTS	PERCENTAGE	PERCENTAGE
Currency forward contracts								
Buy US dollars/Sell New Zealand dollars	(17,381)	6,132	394,115	373,386	0.6334	0.6759	74.1	64.8

The spot rate used to determine the mark-to-market carrying value of the US dollar forward contracts at balance date was $0.6628 (2019: $0.6631).
The following sensitivity table, based on currency contracts and foreign currency trade creditors in existence at balance date, shows the positive/(negative) impact of reasonably possible exchange rate movements on after tax profit and equity, with all other variables held constant.

Foreign currency sensitivity table	Note	Amount	+ 10 percent Profit	+ 10 percent Equity	- 10 percent Profit	- 10 percent Equity
		2020	2019	2020	2019	2020
As at 2 August 2020		$ 000	$ 000	$ 000	$ 000	$ 000
Foreign currency trade creditors	8.3	(55,810)	3,653	3,653	(4,465)	(4,465)
Derivative financial instruments						
Currency forward contracts - cash flow hedges	13.2	(15,040)	-	(20,997)	-	25,668
Currency forward contracts - fair value hedges	13.2	(2,341)	(3,697)	(3,697)	4,519	4,519
Total increase/(decrease)			(44)	(21,041)	54	25,722
As at 28 July 2019						
Foreign currency trade creditors	8.3	(76,869)	5,031	5,031	(6,150)	(6,150)
Derivative financial instruments						
Currency forward contracts - cash flow hedges	13.2	5,518	-	(19,657)	-	24,031
Currency forward contracts - fair value hedges	13.2	614	(5,013)	(5,013)	6,128	6,128
Total increase/(decrease)			18	(19,639)	(22)	24,009

Based on historical performance, currency contracts designated as cash flow hedges are treated as 100% hedge effective.

Interest rate risk

The Group's main exposure to market interest rates related to its core borrowings which, prior to the COVID-19 pandemic was estimated to be $150 million. The Group currently has no core borrowing and forecasts indicate it will have no core borrowings for the next two years on that basis; the Group decided to close-out all its interest rate swaps in August 2020 previously held to manage the Group's exposure to interest rate volatility.

14.0 KEY MANAGEMENT

Key management includes the Directors of the Company and those employees deemed to have disclosure obligations under subpart 6 of the Financial Markets Conduct Act 2013, being the Group Chief Executive Officer and his 10 (2019: 9) direct reports.

Compensation made to Directors and other members of key management of the Group is set out in the two tables below:

Directors' Fees	2020	2019
	$ 000	$ 000
J Withers (Chair)	160	166
K R Smith (Deputy Chair)	111	115
A J Balfour	82	85
W K Easton (appointed October 2018)	76	65
D R Hamilton (appointed April 2020)	14	-
J W M Journee	83	86
J M Raue	95	107
Sir Stephen Tindall	82	85
Total	703	709

The Directors reduced their fees by 20 percent in April and May 2020 during the COVID-19 lockdown period. John Journee received an additional fee of $13,200 (2019: $16,500) also, as a director of TheMarket.com Limited, a Group subsidiary.

Key management	Note	2020	2019
		$ 000	$ 000
Base salary		8,361	7,433
Annual performance based compensation		-	2,492
Three year performance based compensation		2,536	2,195
Share-based compensation	12.4	131	162
Termination benefits		630	-
Total		11,658	12,282

The Group cancelled this year's annual incentive plan in April 2020 as part of measures taken to reduce operating costs in response to the uncertain trading outlook at the commencement of the COVID-19 lockdown.

15.0 COMMITMENTS

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

Capital commitments	2020	2019
	$ 000	$ 000
Within one year	4,762	1,452

16.0 CONTINGENT LIABILITIES

	2020	2019
	$ 000	$ 000
Bank letters of credit issued to secure future purchasing requirements	2,249	2,467
Less included as a goods in transit creditor	(593)	(213)
	1,656	2,254
Bank guarantees provided to landlords and the New Zealand Stock Exchange Limited	456	456
Total contingent liabilities	2,112	2,710

17.0 RELATED PARTIES

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

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

(i) Sir Stephen Tindall (Director) has a beneficial shareholding of 93,687,096 shares (2019: 93,687,096 shares) which carry the normal entitlement to dividends. Dividends of $7.495 million (2019: $14.054 million) were received on these shares during the year.

(ii) The Group's other Directors collectively had beneficial shareholdings of 236,939 shares (2019: 198,964 shares) at balance date which carry the normal entitlement to dividends.

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

(iv) Key management (as detailed in note 14.0) collectively held 265,172 shares (2019: 333,586 shares) at balance date which carry the normal entitlement to dividends.

Independent Auditor's Report

To the shareholders of The Warehouse Group Limited

We have audited the financial statements which comprise:

- the consolidated balance sheet as at 2 August 2020;
- the consolidated income statement for the 53 week period then ended;
- the consolidated statement of comprehensive income for the 53 week period then ended;
- the consolidated statement of changes in equity for the 53 week period then ended;
- the consolidated statement of cash flows for the 53 week period then ended; and
- the notes to the financial statements, which include significant accounting policies.

Our opinion

In our opinion, the accompanying financial statements of The Warehouse Group Limited (the Company), including its subsidiaries (the Group), present fairly, in all material respects, the financial position of the Group as at 2 August 2020, its financial performance and its cash flows for the 53 week period then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

Basis for opinion

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

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

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

Our firm carries out other services for the Group in the areas of treasury related market analysis, agreed upon procedures at the Annual Shareholders' Meeting and a tax audit for an overseas subsidiary. In addition, certain partners and employees of our firm may deal with the Group on normal terms within the ordinary course of trading activities of the Group. These relationships and provision of other services has not impaired our independence as auditor of the Group.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current 53 week period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Description of the key audit matter	How our audit addressed the key audit matter
Valuation of inventory, including impacts of COVID-19	
The carrying value of the Group's inventory as at 2 August 2020 was $393.6 million (2019: $517.8 million) inclusive of inventory provisions amounting to $36.9 million (2019: $24.0 million). The cost of inventory is calculated using a weighted average method and includes expenditure incurred to purchase the inventory and transport it to its current location. The inventory provision, which represents a deduction from cost to measure inventory at the lower of cost and net realisable value is determined based on various factors including historical data, current trends and product information from buyers. Determining the appropriate level of provisioning involves judgements including management's expectations of future sales levels and estimation of selling price adjustments. The Group increased inventory provisions in the current 53 week period to reflect management's best estimate of net realisable value based on the expected future economic conditions as a result of the COVID-19 pandemic. This is an area of focus for the audit due to the significance of the inventory balance and the judgements involved in estimating the inventory provisions. Notes 1.5 and 8.1 of the financial statements describe the accounting policy on inventory and the judgements and estimates applied by management to determine the inventory provision, including COVID-19 considerations.	To audit the cost of inventory, our procedures included the following: • Tested the accuracy of the weighted average cost calculation, on a sample basis, by reperforming the calculation; • Validated the cost of inventory, on a sample basis, to supplier and freight invoices; and • Attended a sample of cycle counts to observe that finished goods have been counted and any stocktake variances have been appropriately recorded. We performed the following audit procedures on inventory provisions: • Observed management's stocktake process at selected locations to confirm that aged and clearance items were identified and accounted for; • Held discussions with management to understand and corroborate the assumptions used to estimate inventory provisions; • On a sample basis, we tested the net realisable value of finished goods by comparing its cost with the most recent retail price less cost to sell and that finished goods were valued at the lower of cost or net realisable value; • Reviewed the inventory aging schedules to check, on a sample basis, whether provisions were recorded for aged stock in accordance with Group policy; • Obtained an understanding of specific inventory provisions calculated for certain inventory categories, such as discontinued and clearance items. We challenged management on whether the additional provisions recognised as a result of COVID-19 were appropriate based on a review of aged stock and net realisable value; and • Compared all inventory provisions for each inventory category as a percentage of the gross carrying amount versus the prior 52 week period and understood the rationale for material or unexpected changes. There were differences identified based on our audit procedures, however these were not considered material.

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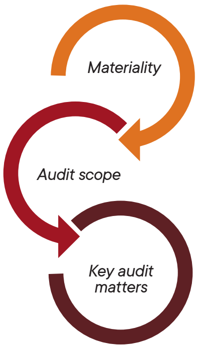
Description of the key audit matter	How our audit addressed the key audit matter
Adoption of NZ IFRS 16, Leases On 29 July 2019, the Group adopted NZ IFRS 16, which resulted in the Group recognising almost all leases, where the Group is a lessee, on the consolidated balance sheet. On adoption date, the Group recognised right-of-use assets of $834.5 million and $990.2 million of lease liabilities. Management applied a number of judgements and estimates which included: • the incremental borrowing rates applied at the time of adoption; • lease term assumptions, including any rights of renewals expected to be exercised; and • practical expedients applied in respect of low value assets and short term lease exemptions. Due to the magnitude of the balances, number of leases involved and effort required during the audit, this was considered an area of focus. The impact on adoption of the new standard is disclosed in notes 10.3 and 10.4 of the financial statements.	Our audit procedures in relation to the adoption of NZ IFRS 16 were as follows: • Held discussions with management to understand the basis for judgements and estimates used in the calculation of the opening balances; • Understood the practical expedients applied and considered the appropriateness of applying these expedients based on what is permitted in the standard; • Tested the assumptions used to determine the lease term, including rights of renewal, by assessing whether they were supported by past practice and current business plans; • Tested, on a sample basis, the accuracy of information included in the lease calculations by comparing the inputs to the terms in the underlying lease agreements; • Checked completeness of the identified lease agreements by comparing whether leased stores and other major leased assets were included in the calculation; • On a sample basis, recalculated the right-of-use asset and lease liability for individual leases; • Engaged our internal valuation expert to assess the reasonableness of the incremental borrowing rates adopted and compared these to management's rates; and • Considered the appropriateness of disclosures in the financial statements. There were differences identified in relation to the incremental borrowing rates for a small number of long-term leases, however these were not considered material.
Group restructuring, including impacts of COVID-19 In February 2020, the Group commenced its plan to move to an Agile way of working which will result in a reduction in roles across stores and the Group's head office. It also involves the closure of certain stores across the Group. The restructure was accelerated due to COVID-19. Management assessed the impact of COVID-19 in conjunction with its business restructure which resulted in the recognition of redundancy provisions of $9.1 million (refer to notes 8.3 and 8.4) and asset impairments of $11.4 million (refer to notes 1.5 and 2.2). This was an area of focus during the audit due to the magnitude of the balances and judgements involved in recognising the redundancy provisions and asset impairments.	Our procedures to address this area of focus were as follows: *Redundancy provisions* • Obtained an understanding of the restructuring plan; • Assessed whether the recognition criteria for redundancy costs under the accounting standards were met; and • Checked the reasonableness of the amounts recognised by agreeing the inputs to the calculation, on a sample basis, to supporting documents such as employee contracts. *Asset impairments* • Understood the rationale for the impairment of assets; • For stores that were closed prior to year end, checked that the remaining assets, which were considered to be obsolete or not able to be transferred to other parts of the Group, were written off; • For expected store closures after year end, checked, on a sample basis, that the remaining useful life of assets still in use did not exceed the anticipated store closure date; and • On a sample basis, recalculated the amount recognised as an impairment. We also reviewed the disclosures in the financial statements in respect of these provisions and impairment. There were differences identified based on our audit procedures, however these were not considered material.

Independent Auditor's Report

To the shareholders of The Warehouse Group Limited

Our audit approach

Overview



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

Overall Group materiality: $5.1 million, which represents approximately 5% of profit before tax from continuing operations adjusted for restructuring costs and brand impairment.

We chose this benchmark because, in our view, it provides a more stable measure and better reflects the performance of the Group.

As reported above, we have three key audit matters, being:

- Valuation of inventory, including impacts of COVID-19
- Adoption of NZ IFRS 16, Leases
- Group restructuring, including impacts of COVID-19

Materiality

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

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

Audit scope

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

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

Information other than the financial statements and auditor's report

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

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

Responsibilities of the Directors for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

The auditor also:

- Identifies and assesses the risks of material misstatement of the financial statements, whether due to fraud or error, designs and performs audit procedures responsive to those risks, and obtains audit evidence that is sufficient and appropriate to provide a basis for the auditor's opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtains an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluates the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Concludes on the appropriateness of the use of the going concern basis of accounting by those charged with governance and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If the auditor concludes that a material uncertainty exists, the auditor is required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. The auditor's conclusions are based on the audit evidence obtained up to the date of the auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluates the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtains sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements. The auditor is responsible for the direction, supervision and performance of the group audit. The auditor remains solely responsible for the audit opinion.

The auditor communicates with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that the auditor identifies during the audit.

The auditor also provides those charged with governance with a statement that the auditor has complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on the auditor's independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, the auditor determines those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. The auditor describes these matters in the auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, the auditor determines that a matter should not be communicated in the auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Who we report to

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

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

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants Auckland

14 October 2020

Annual 5 Year Summary

	(53 weeks) 2020	(52 weeks) 2019	(52 weeks) 2018	(52 weeks) 2017	(52 weeks) 2016
	$000	$000	$000	$000	$000
Summary Income Statements					
The Warehouse	1,706,036	1,705,687	1,695,839	1,738,751	1,741,831
Warehouse Stationery	268,845	268,592	263,766	278,181	279,155
Noel Leeming	1,009,975	924,648	880,453	810,705	752,137
Torpedo7	190,971	172,474	163,402	157,726	148,660
Other group operations	8,123	8,508	9,655	8,603	13,998
Inter-segment eliminations	(11,120)	(8,552)	(18,544)	(13,195)	(11,602)
Retail sales	3,172,830	3,071,357	2,994,571	2,980,771	2,924,179
The Warehouse	96,280	85,075	71,440	84,531	89,376
Warehouse Stationery	22,764	16,669	10,590	15,743	14,288
Noel Leeming	46,041	38,103	31,163	19,264	12,050
Torpedo7	(14,746)	(7,027)	(1,447)	2,675	3,380
Digital Retail venture	(14,657)	(5,996)	(1,133)	-	-
Other group operations	(18,880)	(14,446)	(19,171)	(14,376)	(7,929)
Retail operating profit[1]	116,802	112,378	91,442	107,837	111,165
Adjustments for NZ IFRS 16	(154)	-	-	-	-
Equity earnings of associate	-	-	-	-	723
Gain on disposal of property	88	11,761	218	11,455	5,533
Gain from business acquisitions	-	-	-	-	10,625
Restructuring costs	(44,195)	(15,718)	(8,731)	(12,060)	-
Goodwill and brand asset impairment	(2,545)	(5,478)	(25,622)	-	-
Changes in fair value of financial instruments	(6,427)	-	-	-	-
Earnings before interest and tax[2]	63,569	102,943	57,307	107,232	128,046
Net interest expense[1]	(5,597)	(8,879)	(9,165)	(12,527)	(14,154)
Profit before tax	57,972	94,064	48,142	94,705	113,892
Income tax expense	(14,305)	(26,621)	(20,636)	(23,691)	(25,890)
Profit after tax	43,667	67,443	27,506	71,014	88,002
Discontinued operations (net of tax)	31	(1,928)	(4,386)	(50,283)	(5,526)
Minority interests	774	(133)	(242)	(302)	(4,138)
Profit attributable to shareholders	44,472	65,382	22,878	20,429	78,338
Adjusted profit reconciliation					
Unusual items (detailed above)	53,233	9,435	34,135	605	(16,158)
Income tax relating to unusual items	(16,930)	(2,642)	(2,384)	(3,132)	(2,163)
Minority interests	-	-	-	-	3,614
Discontinued operations (net of tax)	(31)	1,928	4,386	50,283	5,526
Adjusted net profit	80,744	74,103	59,015	68,185	69,157
The Warehouse					
Operating margin (%)	5.6	5.0	4.2	4.9	5.1
Same store sales growth (%)	10.4	1.5	(3.0)	1.2	4.1
Number of stores	92	93	93	92	92
Store footprint (square metres)	498,955	501,537	505,645	501,807	499,547
Warehouse Stationery					
Operating margin (%)	8.5	6.2	4.0	5.7	5.1
Same store sales growth (%)	7.1	1.4	(6.0)	(0.3)	6.5
Number of stores	71	70	70	69	66
Store footprint (square metres)	67,239	70,550	71,491	73,216	71,927
Noel Leeming					
Operating margin (%)	4.6	4.1	3.5	2.4	1.6
Same store sales growth (%)	17.2	2.8	5.7	6.4	14.2
Number of stores	74	77	74	77	75
Store footprint (square metres)	77,281	80,273	76,055	73,591	71,169
Dividend distributions					
Interim (cents per share)	-	9.0	10.0	10.0	11.0
Final (cents per share)	-	8.0	6.0	6.0	5.0
Ordinary dividends declared (cents per share)	-	17.0	16.0	16.0	16.0
Basic earnings per share (cents)	12.9	18.9	6.6	5.9	22.7
Basic adjusted earnings per share (cents)	23.4	21.5	17.1	19.8	20.1

	2020	2019	2018	2017	2016
	$000	$000	$000	$000	$000
Summary Balance Sheets					
Inventories	393,610	517,758	523,840	487,274	501,713
Trade and other receivables	84,263	90,670	79,758	75,632	150,624
Creditors and provisions	(505,661)	(434,616)	(367,002)	(336,451)	(347,073)
Working capital	(27,788)	173,812	236,596	226,455	305,264
Fixed assets	259,741	271,172	272,944	273,300	312,396
Held for sale	-	-	3,674	71,699	52,277
Funds employed	231,953	444,984	513,214	571,454	669,937
Taxation assets	90,823	37,762	32,030	45,870	40,943
Derivative financial instruments	(26,848)	(46)	16,400	(19,265)	(28,619)
Contingent and deferred consideration	-	-	-	-	(1,000)
Right of use assets	774,175	-	-	-	-
Goodwill and brand names	72,956	75,501	80,979	106,601	129,315
Capital employed	1,143,059	558,201	642,623	704,660	810,576
Net debt/cash in funds	(168,068)	76,168	162,339	218,271	299,980
Lease liabilities	934,788	-	-	-	-
Equity attributable to shareholders	377,133	481,314	479,405	485,522	510,429
Minority interest	(794)	719	879	867	167
Sources of funds	1,143,059	558,201	642,623	704,660	810,576
Summary Cash Flow					
Continuing operating profit	116,802	112,378	91,442	107,837	111,165
Continuing depreciation and amortisation	58,236	60,613	59,630	58,376	58,210
Continuing operating EBITDA	175,038	172,991	151,072	166,213	169,375
Change in trade working capital	201,335	77,249	(5,853)	21,661	35,198
Income tax paid	(19,879)	(26,540)	(14,082)	(27,454)	(28,037)
Net interest paid	(5,503)	(8,657)	(9,307)	(16,008)	(16,495)
Restructuring costs	(39,827)	(15,718)	(8,731)	(12,397)	-
Other items	13,009	(1,332)	(5,185)	(3,927)	2,419
Adjusted operating cash flow[3]	324,173	197,993	107,914	128,088	162,460
Capital expenditure	(64,513)	(61,326)	(70,229)	(70,575)	(75,180)
Proceeds from divestments	12,008	3,710	74,680	79,714	45,870
Net dividends paid	(27,897)	(52,264)	(55,785)	(52,466)	(58,162)
Acquisition of subsidiaries and minorities	-	-	-	(1,000)	(74,367)
Other items	465	(1,942)	(648)	(2,052)	(1,028)
Net cash flow	244,236	86,171	55,932	81,709	(407)
Opening debt	(76,168)	(162,339)	(218,271)	(299,980)	(299,573)
Closing debt	168,068	(76,168)	(162,339)	(218,271)	(299,980)
Financial Ratios					
Operating margin (%)	3.7	3.7	3.1	3.6	3.8
Interest cover (times)	20.9	12.7	10.0	8.6	7.9
Net debt/EBITDA (times)	-	0.5	1.1	1.4	1.8
Net debt/net debt plus equity (%)	-	13.6	25.3	31.0	37.0
Return on funds employed (%)	34.5	23.5	16.9	17.4	16.7
Capex/depreciation (times)	1.1	1.0	1.2	1.1	1.2

Non-GAAP financial information

The numbers in the five year summary are largely extracted from the Group's audited financial statements, but also include a number of non-GAAP financial measures which the Group uses internally as it considers these line items provide a better measure of underlying business performance and improves multi-year comparability. These non GAAP measures are not prepared in accordance with NZ IFRS and may not be comparable to similarly titled amounts reported by other companies. The Group's policy regarding unusual items and adjusted net profit are detailed in note 5.0 of the financial statements.

Notes

1. Adjusted to exclude the impact of NZ IFRS 16
2. Includes NZ IFRS 16 lease liability interest expense
3. Includes NZ IFRS 16 lease principal repayments

Governance Report

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

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

We support and comply with the NZX Corporate Governance Code 2020 (the NZX Code). This statement follows the structure of the new Code and addresses its recommendations. As at the date of the publication of this Annual Report, the Company considers its governance practices are compliant with the NZX Code.

This governance statement was approved by the Board on 14 October 2020 and is current as at that date.

The Company's constitution, the Board and committee charters, codes and policies referred to in this statement are available to view at

www.thewarehousegroup.co.nz/investor-centre/corporate-governance

CODE OF ETHICAL BEHAVIOUR

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

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

Code of Ethics

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

Financial Products Trading Policy

The Company is committed to transparency and fairness in dealing with all its stakeholders and to ensuring adherence to all applicable laws and regulations. The Financial Products Trading Policy governs trading in the Company's securities by Directors, employees and other associated persons. The policy and timing of black-out periods is set out in the Financial Products Trading Policy which is available in the Workplace Knowledge Library.

BOARD COMPOSITION AND PERFORMANCE

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

Responsibilities of the Board

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

The Board has adopted a Board Charter which sets out how the Board will achieve its purpose. The Charter was last approved in May 2020 and is available in the Corporate Governance section of the website. The Charter is reviewed as required and at least every two years. The Board's responsibilities contained in the Charter include:

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

Day-to-day management and administration of the Company is undertaken by the CEO in accordance with the strategy, plans and delegations approved by the Board. The CEO is assisted by the Executive Management team in delivering the Company's strategy. The Board has implemented appropriate procedures to enable management to undertake its delegated duties and for performance to be assessed. More information can be found in the Remuneration section on pages 85–87.

Chair

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

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

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

Director Appointments

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

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

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

In addition, the Company indemnifies and provides insurance to Directors in accordance with the Companies Act 1993 for certain claims which may be brought against them as Directors.

Governance Report

Board Structure, Skills and Composition
The current Board is comprised of Directors with a mix of qualifications, skills and experience appropriate to the Company's existing operations and strategic directions. Qualifications and experience of individual Directors are detailed on pages 22– 24. A comprehensive matrix of Director skills is contained on page 25.

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

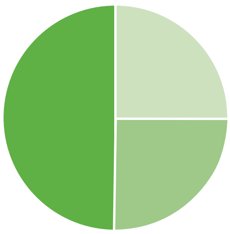
Ongoing training includes briefings by senior management and guest speakers on relevant industry and competitive issues, occasional overseas study tours and site-visits. Directors are actively encouraged to attend regular Institute of Director (IOD) courses.

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

Board Tenure
The Constitution provides that the minimum size of the Board shall not at any time be less than five and the Board has fixed the maximum number of directors to be 10. Each year, any Director who is required by the NZX Listing Rules or the Company's constitution to retire will retire from office and may offer themselves for re-election at the Annual Shareholders' Meeting.

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

Sir Stephen Tindall and Keith Smith, two of our long-standing directors due to retire by rotation, have confirmed that they will not seek re-election and will step down at the Annual Shareholders' Meeting. Robbie Tindall, who has been acting as Sir Stephen's alternate since October 2017, has been nominated as a Director and will stand for election at the Annual Shareholders' Meeting.



Name of Director	Originally Appointed	Last Reappointed/ Elected
Joan Withers	23 September 2016	22 November 2019
Sir Stephen Tindall	10 June 1994	24 November 2017
Keith Smith	10 June 1994	24 November 2017
Antony (Tony) Balfour	15 October 2012	23 November 2018
John Journee	17 October 2013	23 November 2018
Julia Raue	23 September 2016	22 November 2019
William (Will) Easton	3 October 2018	23 November 2018
Dean Hamilton	20 April 2020	

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

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

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

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

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

Future Directors Programme
Continuing the Company's commitment to supporting the next generation of governance talent in New Zealand, the Board appointed Ms Renee Mateparae in August 2019 as part of the Future Directors initiative administered by the Institute of Directors in New Zealand. Ms Mateparae attended her first Board meeting on 22 August 2019 and her appointment will continue through to 31 March 2021.

BOARD COMMITTEES

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

The Board has established Committees that focus on particular areas of the Board's responsibilities and together ensure the efficient performance of the Board, and the achievement of Corporate Governance outcomes. The committees report to the full Board on all material matters and issues requiring Board decisions. From time to time, the Board may create ad hoc committees to examine specific issues on its behalf.

Current Committees
The current committee structure is set out in the table on page 80.

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

Takeover Offer Protocols
The Company has takeover protocols that meet the requirements of the NZX Code.

REPORTING AND DISCLOSURE

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

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

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

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

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

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

Management accountability for the integrity of the Company's financial reporting is reinforced by certification from the CEO and the CFO. The CEO and CFO have provided the Board with written confirmation that the Company's financial report presents a true and fair view, in all material respects, of the Company's financial position for the year ended 2 August 2020, and that operational results are in accordance with relevant accounting standards.

Governance Report

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

The table below reports attendance of members at Board and Board Committee meetings during the year ended 2 August 2020.

	Board	Audit and Risk Committee	People and Remuneration Committee	Corporate Governance and Nomination Committee	Health, Safety and Wellbeing Committee	Disclosure Committee
Number of Meetings	19	4	5	2	8	4
Tony Balfour	19	1[1]	5	2	8	1[1]
John Journee	18	4	5[1]		8	1[1]
Keith Smith	19	4	5	2	8	4
Sir Stephen Tindall[2]						
Robbie Tindall	18	2[1]	5	2	8	4
Joan Withers	19	4	5	2	8	4
Will Easton	18				7	
Dean Hamilton[3]	5	1			2	
Julia Raue	19	4	1[1]		8	1[1]

[1] Non-committee member in attendance

[2] Leave of absence October 2019 to October 2020

[3] Joined Board in April 2020

Governance Report

Non-financial Reporting

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

Communities and Environment are at the heart of the Company's culture. The Company reports annually its financial and non-financial contribution to the community, as well as audited figures on its greenhouse gas emissions. The Company's material environmental, economic and social risks are outlined on pages 44 and 45.

REMUNERATION

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

The Company's remuneration philosophy, policy and details regarding Executives' remuneration (including remuneration components and performance criteria) are discussed on pages 85–87.

The current Directors' fee pool limit is $900,000 which was approved by the shareholders at the 22 November 2013 Annual Shareholders' Meeting. Fees are paid for Board and committee roles as indicated below. Directors are reimbursed for reasonable travel and other costs associated with fulfilling his or her role. The Chair and Deputy Chair do not receive additional fees for membership of other Board committees.

The Board considers the advice of independent remuneration consultants when setting remuneration levels and other relevant factors when recommending Directors' fees to shareholders and setting remuneration levels for executives. The Board will not be seeking any increase in the pool limit at the 2020 Annual Shareholders' Meeting.

RISK MANAGEMENT

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

Risk Management Framework

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

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

Information on material risks the business faces and how they are managed is outlined on page 34.

Risk management roles and responsibilities

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

Risk monitoring and evaluation

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

Board/Committee Name	Position	Fees (Per Annum)
Board of Directors	Chair	$166,000[1]
	Deputy Chair	$115,000[1]
	Member	$78,525
Audit and Risk Committee	Chair	$15,000
	Member	$7,500
People and Remuneration Committee	Chair	$12,000
	Member	$6,000
Health, Safety and Wellbeing Committee	Chair	$12,000
	Member	-
Corporate Governance and Nomination Committee	Chair	-
	Member	-
Disclosure Committee	Chair	-
	Member	-

[1] Includes attendances at committee meetings

The fees paid to non-executive Directors for services in their capacity as directors during the year ended 2 August 2020 totalling $716,172 were paid as follows:

ACTUAL DIRECTOR REMUNERATION 2019/20

Name of Director	Board Fees[4]	Audit and Risk Committee	People and Remuneration Committee	Corporate Governance and Nomination Committee	Disclosure Committee	Health, Safety and Wellbeing Committee	Other Committees	Shares and Other Payments or Benefits	Total Individual Remuneration[4]
Joan Withers (Chair)	$160,467 (Chair)	- (member)	- (member)	- (member)	- (Chair)	- (member)	-	-	$160,467
Keith Smith (Deputy Chair)	$111,167 (Deputy Chair)	(Chair)	- (member)	- (Chair)	- (member)	- (member)	-	-	$111,167
Tony Balfour	$75,708	-	$6,000 (Chair)	- (member)	-	- (member)	-	-	$81,708
William Easton	$75,908	-	-	-	-	- (member)	-	-	$75,908
Dean Hamilton	$14,098	- (member)				- (member)			$14,098
Julia Raue	$75,658	$7,500 (member)	-	-	-	$11,600 (Chair)	-	-	$94,758
John Journee[2]	$75,658	$7,500 (member)	-	-	-	- (member)	-	$13,200	$96,358
Sir Stephen Tindall[1]	$75,708	-	$6,000 (member)	- (member)	- (member)	- (member)	-	-	$81,708

[1] Director fees on-paid to Robbie Tindall, Alternate Director. [2] John Journee received an additional fee of $13,200 as a Director of subsidiary company TheMarket.com Limited. [3] Robbie Tindall received a fee of $12,512 as a Director of subsidiary company TheMarket.com Limited. [4] Directors took a 20% pay cut during April and May due to COVID–19 disruption to business.

Health and safety
The Company's approach and process on health and safety initiatives can be found on pages 38 and 39.

DIVERSITY
Diversity of gender, skill, age, experience and beliefs are valued and the provision of equal opportunities for all employees and those looking to join the Company is fundamental to the way we operate as a business.

For the year ended 2 August 2020 the Board is satisfied that the Company achieved its gender diversity objectives and other measurable objectives. Details regarding the Company's Diversity Policy, goals and performance criteria are detailed on page 84.

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

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

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

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

Engagement of the external auditor
The Company's external auditor is PricewaterhouseCoopers (PwC). PwC was appointed by shareholders at the 2004 Annual Shareholders' Meeting in accordance with the provisions of the Companies Act 1993 (Act). PwC is automatically reappointed as auditor under Section 207T of the Act.

Attendance at the Annual Shareholders' Meeting
PwC, as auditor of the 2020 Financial Statements, has been invited to attend this year's Annual Shareholders' Meeting and will be available to answer questions about the conduct of the audit, preparation and content of the auditor's report, accounting policies adopted by The Warehouse Group Limited and the independence of the auditor in relation to the conduct of the audit.

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

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

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

The role of internal audit is to:

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

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

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

The Company transitioned to the new NZX Listing Rules with effect from 1 March 2019.

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

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

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

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

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

The ASM is held at a convenient time and location and this year is anticipated to be run as a hybrid meeting (being a combination of the physical meeting as well as a virtual online meeting) or as a virtual-only meeting. This is due to the uncertainties this year around COVID–19, and we anticipate this will also maximise participation. The 2020 ASM will be held on 27 November 2020. The Notice of Meeting will be circulated as soon as possible (at least 28 days before the meeting) and will be posted on the Company's website.

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

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

Computershare Investor Services Limited

Telephone:	+64 9 488 8777
Email:	investor@twgroup.co.nz

DISCLOSURES OF INTERESTS BY DIRECTORS

General disclosures

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

ANTONY (TONY) BALFOUR

Director, Les Mills International Limited

Director, Wayfare Limited (formerly Real Journeys Limited)

Director, BLIS Technologies Limited

WILLIAM (WILL) EASTON

Managing Director, Facebook Pty Ltd

Director, Meandu Australia Pty Limited

DEAN HAMILTON

Chair & Shareholder, Fulton Hogan Limited

Director & Shareholder, Auckland International Airport Limited

Director, Skyline Enterprises Limited

Director, Tappenden Holdings Limited

JOHN JOURNEE

Director, Farmlands Society

Director, Colonial Motor Company Limited

Director, CMC Workplace Savings Scheme Trustee Limited

Director, Vanishing Point Limited

Member, Advisory Board, Quantiful Limited

KEITH SMITH

Chair, Anderson & O'Leary Limited

Chair, Goodman (NZ) Limited

Chair, Healthcare Holdings Limited and subsidiaries

Chair, Mobile Surgical Services Limited

Chair, H J Asmuss & Co Limited and subsidiaries

Director, Community Financial Services Limited

Director, Enterprise Group Limited and subsidiaries

Director, Gwendoline Holdings Limited (non-trading)

Director, James Raymond Holdings Limited (non-trading)

Director, Mercury NZ Limited

Director, Tree Scape Limited

Director, Sky Network Television Limited

Member, Advisory Board NZ Tax Traders Limited

Trustee, Cornwall Park Trust Board

JULIA RAUE

Director, Jade Software Corporation Limited

Director, Southern Cross Health Society

Director, Southern Cross Pet Insurance Limited

Director, Television New Zealand Limited

Director, Z Energy Limited

Director, Rowdy Consulting Limited

JOAN WITHERS

Chair, Mercury NZ Limited *(resigned)*

Director, ANZ Bank New Zealand Limited

Director, On Being Bold Limited

Director, Sky Network Television Limited

Member, MBIE Economic Development Challenge Group *(resigned)*

Member, Appointments Panel Fonterra farmer-elected directors

Trustee, Sweet Louise Foundation

SIR STEPHEN TINDALL

Founding Director, KEA New Zealand

Director, Branches Station Limited

Director, Byron Corporation Limited

Director, Foundation Services Limited

Director, Elliott Street No 5 Limited

Director, K One W One Limited

Director, K One W One (No 2) Limited

Director, K One W One (No 3) Limited

Director, K One W One (No 4) Limited

Director, K One W One (No 5) Limited

Director, Lake Pupuke Investments Limited

Director, Norwood Investments Limited

Director, No Holdings Limited

Director, The Gorse Company Limited

Director, Team New Zealand Limited

Director, America's Cup Event Limited

Trustee, Team New Zealand Trust

Trustee, The Tindall Foundation

Shareholder*, Ambit AI Ltd

Shareholder*, Ask Nicely Ltd

Shareholder*, Auror Ltd

Shareholder*, Career Engagement Group Ltd

Shareholder*, GoGo Connecting Good Ltd

Shareholder*, MEA Mobile Ltd

Shareholder*, Mentemia Ltd

Shareholder*, Qotient Group Ltd

Shareholder*, Solar City Ltd

Shareholder*, TNX Ltd

Shareholder*, Uneeq Ltd

Shareholder*, VWork Ltd

Shareholder*, Velocity Made Good Holdings Ltd

* Indirect interest

ROBERT (ROBBIE) TINDALL (ALTERNATE DIRECTOR)#

Trustee, The Tindall Foundation

Trustee, Finn Lowery Foundation

Director, Foundation Services Limited

Director, Franklin Smith Limited *(resigned)*

Director, K One W One Limited

Director, K One W One (No 2) Limited

Director, K One W One (No 3) Limited

Director, K One W One (No 4) Limited

Director, K One W One (No 5) Limited

alternate to Sir Stephen Tindall

INDEMNITY AND INSURANCE

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

CELEBRATING DIVERSITY AND INCLUSION

The Group strives to create a workplace where our people feel they can bring their whole selves to work. We believe that this can only happen in an environment where diversity and inclusion are embraced. That is why the Group is committed to continuously identifying ways we can improve diversity and inclusivity.

Areas of focus	Objective	Target			Actual				
						2019		2020	
			2021	2022	Female representation	Female	Total	Female	Total
Gender	Improve representation of women at senior levels of business	50% of senior management positions held by women by 2022	40%	50%	Board	2	7	2	8
					Executive	2	11	2	11
					Direct report to executive team Agile shift	21	43	25	58
		100% of shortlists for all senior management roles must include one woman			91% of shortlists for all senior management roles included at least one woman				
	Close gender pay gaps	Gender pay gap is within +/- 2.5% for senior management			The gender pay gap has been reduced to within our target range for stores. For our Store Support Office, there was a gender pay gap at certain levels that exceeded our target. With the move to a new remuneration model under Agile, we will assess all roles against the new model in FY21 and make any adjustments once that work is complete.				
Māori Culture	Build our Māori cultural competency	100 Group Executive Team and other selected senior leaders complete Te Kaa – igniting your Māori Cultural Competency Programme by 2021			Most of Leadership Squad completed Te Kaa Māori Cultural Competency Programme				
Diversity and Inclusion	Develop and celebrate our diversity	Senior managers complete unconscious bias training and managing diversity in the workplace workshops Launch Diversity & Inclusion survey to build D&I understanding Establish five D&I communities			Maintained Rainbow Tick Accreditation Obtained Accessibility Accreditation and Winner of the Access Alliance People's Choice Accessibility Awards for Business in the Best Accessibility Retailer category Launched Diversity and Inclusion Survey Launched Lean in for Women Leaders, which includes training around gender bias Celebrations: Auckland Big Gay Out and Pride in Wellington and Christchurch, International Women's Day, Wellbeing Week with a focus on mental health				
	Continue to support our Gender Transition Policy and Family Violence Policy	Continue to support our Gender Transition Policy and Family Violence Policy Support parental leave policies such as Ease Back to Work to encourage mothers to return to work							

For 2021 we are focused on gender equity as well as creating a feeling of belonging and designing work for wellbeing to live and perform at our best. Our initiatives will include supporting our Group D&I communities to drive D&I strategy for their community using our Company communications platform Workplace and providing senior managers with unconscious bias training.

TEAM MEMBERS' REMUNERATION

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

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

Team Members also received share-based remuneration during the year as part of the Group's long-term incentive plans (refer to note 12.4 to the financial statements). The amount attributed to share-based remuneration presented in the table below represents the value to the employee of the compensation determined using the share price on the date when share options were exercised by the Team Member and/or the share price on the date when share rights vested.

Remuneration ($ 000)	Number of Team Members
100 - 110	117
110 - 120	101
120 - 130	65
130 - 140	68
140 - 150	46
150 - 160	35
160 - 170	47
170 - 180	24
180 - 190	20
190 - 200	14
200 - 210	19
210 - 220	21
220 - 230	16
230 - 240	17
240 - 250	7
250 - 260	15

Remuneration ($ 000)	Number of Team Members
260 - 270	4
270 - 280	6
280 - 290	1
290 - 300	3
300 - 310	3
310 - 320	5
320 - 330	2
330 - 340	3
340 - 350	2
350 - 360	2
370 - 380	3
380 - 390	2
410 - 420	1
420 - 430	2
440 - 450	3
460 - 470	1

Remuneration ($ 000)	Number of Team Members
470 - 480	2
480 - 490	2
500 - 510	1
510 - 520	1
520 - 530	1
560 - 570	3
580 - 590	1
640 - 650	1
690 - 700	2
730 - 740	1
740 - 750	1
840 - 850	1
1,120 - 1,130	2
1,210 - 1,220	1
1,380 - 1,390	1
1,920 - 1,930	1
3,330 - 3,340	1

Statutory Disclosures

REMUNERATION REPORT

1. CEO remuneration 2020 ($ 000s)

	Base			Pay for Performance			
	Salary	Taxable Benefits	Subtotal	STI	LTI	Subtotal	Total Remuneration
Nick Grayston	1,461	97	1,558	-	1,304	1,304	2,862

2. 5 year summary of CEO remuneration ($ 000s)

Year	Group CEO	Total Earnings Paid	Base	Taxable Benefits	STI	STI as % of Maximum	LTI
2020	Nick Grayston	2,862	1,461	97	-	-	1,304
2019	Nick Grayston	1,972	1,435	66	471	48%	-
2018	Nick Grayston	2,237	1,415	54	768	96%	-
2017	Nick Grayston	1,773	1,415	25	333	31%	-
2016	Nick Grayston	1,398	934*	-	464*	66%	-
	Mark Powell	759	733	26	-	-	-

* The 2016 base salary and Short-Term Incentive (STI) payment for Nick Grayston were pro-rata based on his start date of November 2015.

Explanation of the above items

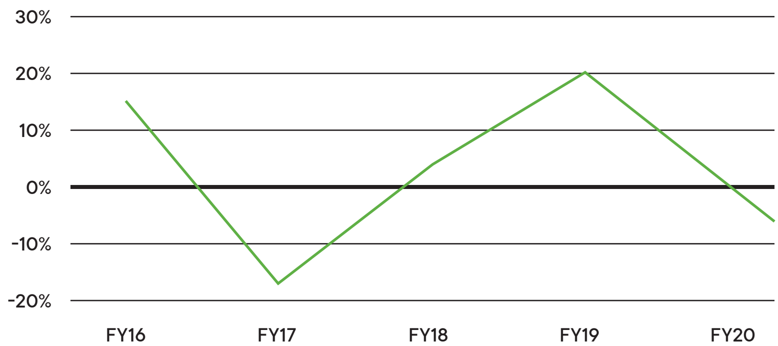
1. CEO remuneration is based on actual remuneration paid within a financial year. The 2020 Long Term Incentive (LTI) value relates to FY17–FY19 but was paid in FY20.
2. The actual remuneration paid includes holiday pay paid as per NZ legislation.
3. Nick Grayston joined the group in November 2015 and replaced Mark Powell, who left at the end of January 2016 following a three-month handover period.
4. Taxable benefits are the value of employer KiwiSaver contributions.

3. Breakdown of pay for performance (2020)

	Description	Performance Measures	Percentage Achieved
Short-term Incentive (STI)	Set at 50% of base salary for On Target performance. Combination of financial and non-financial performance measures.	**Financial Measures: 70% weighting:** The financial measure is based on achieving Group EBIT budget (excluding STI).	70% x 0%*
	For this to be payable, the Group must firstly achieve a gate opener of 90% of the Adjusted NPAT budget and a minimum level of individual performance must be achieved.	**Individual Measures 30% weighting:** Individual goals relate to delivery of strategic priorities, delivering core business drivers and building capability.	30% x 0%*
Long-term Incentive (LTI) FY18–FY20	Cash based scheme. Potential 50% of base salary for On Target performance.	100% weighting based on the three-year Group Adjusted NPAT, calculated as a percentage of the budgeted Group Adjusted NPAT. 50% of potential paid if >95% of target achieved, increasing to a maximum of 150% of potential for achievement of 125% of target.	119.8%†

* The Executive team proposed and the Board accepted that in light of the uncertainty surrounding COVID-19, the FY20 STI scheme should be suspended for the financial year regardless of whether the scheme gates were triggered or not. † The above LTI payment for FY18–FY20 will be paid in FY21.

4. 5 year summary of Total Shareholder Return performance



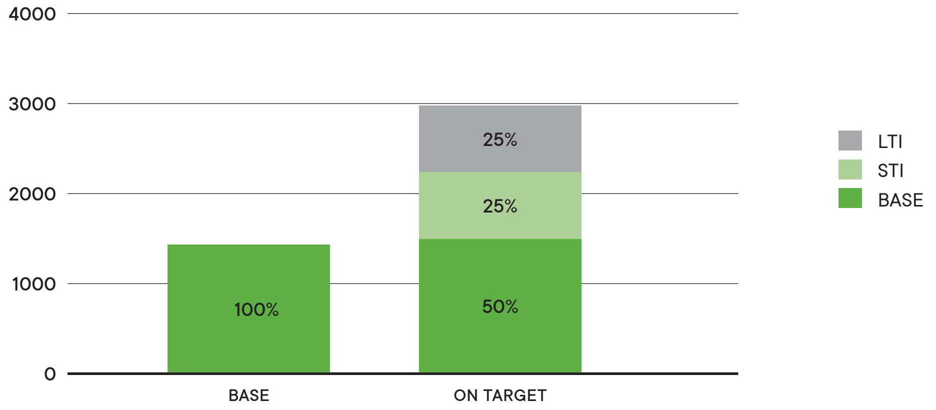
TOTAL SHAREHOLDER RETURN (TSR)

Financial Year 2016 (FY16)	15.2%
Financial Year 2017 (FY17)	-18.9%
Financial Year 2018 (FY18)	3.3%
Financial Year 2019 (FY19)	20.2%
Financial Year 2020 (FY20)	–6.1%

Statutory Disclosures

REMUNERATION POLICY AND DISCLOSURES

5. Potential CEO remuneration (2021)



$ 000	Base Package			Pay for Performance at Target			
	Salary	Taxable Benefits	Subtotal	STI	LTI	Subtotal	Total Remuneration
Nick Grayston	1,461	44	1,505	731	731	1,462	2,967

Explanation: Base salary is set at $1.461 million for the financial year. STI is 50% of base salary for On Target performance. The gate for payment is 90% of 2021 Group Adjusted NPAT budget. The STI is split: 70% based on Group financial results and 30% individual performance against goals. LTI is 50% of base salary, settled in cash, and is payable at the end of the three-year performance period if The Warehouse Group's target of absolute TSR against the Company's cost of equity plus 1% is achieved for the three-year period.

6. Scheme Investments awarded to CEO

Year Invited	% of Salary	Settlement	Performance Period	Measure
FY17	50%	Cash	August 2016 to July 2019*	Three-year Group Adjusted NPAT achieved calculated as a percentage of the budgeted Group Adjusted NPAT.
FY18	50%	Cash	August 2017 to July 2020	Three-year Group Adjusted NPAT achieved calculated as a percentage of the budgeted Group Adjusted NPAT.
FY19	50%	Cash	August 2018 to July 2021	Three-year Group Adjusted NPAT achieved calculated as a percentage of the budgeted Group Adjusted NPAT.
FY20	50%	Cash	August 2019 to July 2022	Three-year Group Adjusted NPAT achieved calculated as a percentage of the budgeted Group Adjusted NPAT.
FY21	50%	Cash	August 2020 to July 2023	Absolute TSR^ against the Company's cost of equity plus 1% over a three-year performance period.

* FY17 scheme was pro-rated to start date of November 2015. ^ The new TSR measure will ensure Management's long-term incentives are more closely aligned to shareholder outcomes.

7. Required disclosures per guidelines

Description	Performance Measures
1. CEO Pay as a Multiple of Team Member median pay	33.22 measured on fixed remuneration. Median hourly rate of all Team Members is $21.15 per hour.
2. TSR Methodology	Total Shareholder Return has been calculated as the movement in the share price during the period plus any dividends paid.
3. Board Discretion	The Board of Directors has exercised discretion with regard to CEO's STI pay for performance for 2020. Any payments made or forecasted are in line with contractual or scheme criteria.
4. Omissions	No information has been omitted relating to CEO remuneration.
5. Any Other Items	There are no other items payable to the CEO that are not disclosed.
6. Benefits	There are no benefits attributable to the CEO due to any loans made.
7. Withholdings	No part of the CEO remuneration has been withheld for any purpose.
8. Related Parties	No related parties are involved with the CEO remuneration.

Statutory Disclosures

DIRECTORS' SHAREHOLDINGS AS AT 2 AUGUST 2020

At 2 August 2020 the following Directors, or entities related to them, held interests in the Company shares:

	Beneficial Interest	Beneficial Interest	Non-beneficial Interest	Non-beneficial Interest	Related Party	Related Party
	2020	2019	2020	2019	2020	2019
J Journee	172,000	172,000				
K R Smith	13,250	13,250	1,978,222	1,797,593	53,158	35,144
R J Tindall[1]	4,800	4,800			93,721,184	93,721,184
Sir Stephen Tindall	93,687,096	93,687,096	7,986,050	7,986,050	38,888	34,088
J Withers	46,889	8,914	1,561,294	1,797,697		

[1] Alternate director

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

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

SHARE DEALINGS BY DIRECTORS

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

Share Transaction	Date of Transaction	Number of Ordinary shares Acquired/(Disposed)	Consideration
J Withers	October 2019	7,000	On market purchase of shares at an average price of $2.62 per share
J Withers	October 2019	30,975	On market purchase of shares at an average price of $2.62 per share

Keith Smith (Director) made three disclosures during the 2020 financial year regarding his indirect interest in the acquisition of a total of 18,014 ordinary shares in The Warehouse Group by Lily Wong. All three disclosures were made in November 2019.

DISTRIBUTION OF SHAREHOLDERS AND HOLDINGS AS AT 30 AUGUST 2020

Size of Shareholding	Number of Shareholders	Percentage	Number of Shares	Percentage
1 - 1,000	3,733	37.19%	1,728,729	0.50%
1,001 - 5,000	4,072	40.57%	8,949,684	2.59%
5,001 - 10,000	1,035	10.31%	6,751,289	1.97%
10,001 - 100,000	1,107	11.03%	24,270,973	6.98%
100,000 and over	90	0.90%	305,142,445	87.96%
	10,037	100.00%	346,843,120	100.00%
Geographic Distribution				
Auckland and Northland	3,902	38.88%	304,998,975	87.94%
Waikato and Central North Island	2,030	20.23%	10,995,532	3.17%
Lower North Island and Wellington	1,406	14.01%	7,844,175	2.26%
Canterbury, Marlborough and Westland	1,082	10.78%	16,222,058	4.68%
Otago and Southland	697	6.94%	4,265,355	1.23%
Australia	771	7.68%	1,331,980	0.38%
Other Overseas	149	1.48%	1,185,045	0.34%
	10,037	100.00%	346,843,120	100.00%

Statutory Disclosures

SUBSIDIARY COMPANY DIRECTORS

The following people held office as directors of subsidiary companies at 2 August 2020. Those who retired during the year are indicated with an (R).

Company	Directors
1-Day Limited	N Grayston, J Oram, K Nickels (R)
1-Day Liquor Limited	K Nickels
Bond and Bond Limited	B Moors, K Nickels
Boye Developments Limited	K Nickels, M Yeoman (R), J Oram
Diners Club (NZ) Limited	M Yeoman (R), K Nickels, J Oram
Eldamos Investments Limited	K Nickels, P Okhovat
Eldamos Nominees Limited	K Nickels
Noel Leeming Finance Limited	B Moors
Noel Leeming Financial Services Limited	B Moors, K Nickels
Noel Leeming Furniture Limited	B Moors, K Nickels
Noel Leeming Limited	B Moors, K Nickels
Noel Leeming Group Limited	T Edwards
The Book Depot Limited	K Nickels
TheMarket.com Limited	N Grayston, J Journee, R Tindall, K Nickels (R), M Yeoman (R), J Oram
The Warehouse Card Limited	K Nickels
The Warehouse Group Support Services Limited	K Nickels
The Warehouse Investments Limited	K Nickels
The Warehouse Limited	K Smith, N Grayston, M Yeoman (R), J Oram
The Warehouse Nominees Limited	K Nickels, B Moors
TWGI Operations Limited	J Oram
Torpedo7 Limited	P Okhovat (R), T Edwards, S West
TWGA Pty Ltd	I McGill, B Moors, K Smith, Sir Stephen Tindall
TWL Australia Pty Limited	I McGill, B Moors, K Smith, Sir Stephen Tindall
TWP No.1 Limited	N Tuck
TWP No.4 Limited	B Moors, K Nickels
TWP No.5 Limited	B Moors, P Okhovat
TWP No.6 Limited	K Smith, M Yeoman (R), J Oram
Chocolate Works NZ Limited	N Craig, P Judd (R), M Razey, H Vetsch, M Anderson, S Smith
Warehouse Stationery Limited	B Moors
TWNL Projects Limited	P Okhovat, S Watson
Lincoln West Limited	K Gardiner, G Helsby, G Lane, P Okhovat
Farran (Nine) Limited	K Gardiner, G Helsby, G Lane, P Okhovat
The Warehouse Planit Trustees Limited	J Withers
The Warehouse Management Trustee Company Limited	K Smith, J Withers
The Warehouse Management Trustee Company No.2 Limited	K Smith, J Withers
TW House Sourcing Private Limited (India)	K Kramer, T Benyon, A Passi (R), C Srinivasan
The Warehouse (Shanghai) Trading Company Limited	T Benyon, M Anderton, K Kramer

USE OF INFORMATION BY DIRECTORS

During the financial year, there were no notices from Directors of the Company, or its subsidiary companies, requesting to disclose or use Company information received in their capacity as Directors of the Company or its subsidiary companies which would not otherwise have been available to them.

Statutory Disclosures

TWENTY LARGEST REGISTERED SHAREHOLDERS AS AT 30 AUGUST 2020

	Number of Ordinary Shares	Percentage of Ordinary Shares
Sir Stephen Robert Tindall	93,687,096	27.01
The Tindall Foundation Inc	73,920,496	21.31
James Pascoe Limited	68,671,082	19.80
Cash Wholesalers Limited	10,373,363	2.99
Foodstuffs Auckland Nominees Limited	10,373,363	2.99
Wardell Bros & Coy Ltd	10,373,363	2.99
Accident Compensation Corporation – NZCSD <ACC140>	4,372,934	1.26
Sir Stephen Tindall, Brian Mayo-Smith & John Richard Avery (SR Tindall Family A/C)	3,778,149	1.09
Citibank Nominees (New Zealand) Limited – NZCSD <CNOM90>	3,729,031	1.08
Robert George Tindall, Sir Stephen Tindall & Pupuke Trustee Limited (Tindall A/C)	3,455,103	1.00
JB Were (NZ) Nominees Limited <NZ Resident A/C>	906,741	0.26
HSBC Nominees (New Zealand) Limited – A/C State Street – NZCSD <HKBN45>	854,011	0.25
Forsyth Barr Custodians Limited <1–Custody>	831,414	0.24
HSBC Nominees (New Zealand) Limited - NZCSD <HKBN90>	814,074	0.23
Stephen Robert Tindall + John Richard Avery + Brian Mayo-Smith <Merani A/C>	752,798	0.22
New Zealand Depository Nominee Limited <A/C 1 Cash Account>	680,437	0.20
Custodial Services Limited <A/C 4>	676,242	0.19
The Warehouse Management Trustee Company Limited	667,174	0.19
James Raymond Holdings Limited	600,000	0.17
John Francis Managh	559,673	0.16
	290,076,544	83.63%

New Zealand Central Securities Depository Limited (NZCSD) is a depository system which allows electronic trading of members. As at 30 August 2020 total holdings in NZSCD were 9,770,050 or 2.82% of shares on issue.

SUBSTANTIAL PRODUCT HOLDERS

According to notices given to the Company under the Financial Markets Conduct Act 2013, as at 2 August 2020, the substantial product holders in the company and their relevant interests are noted below:

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

STOCK EXCHANGE LISTING

The ordinary shares of The Warehouse Group Limited are listed on the New Zealand Exchange (NZX).

ORDINARY SHARES

The total number of voting securities of the Company on issue as at 2 August 2020 was 346,843,120 fully paid ordinary shares.

Holders of each class of equity security as at 2 August 2020	Number of Holders	Number of Shares or Rights
Ordinary Shares	10,037	346,843,120

RIGHTS ATTACHING TO SHARES

Clauses 20–22 of the Company's constitution set out the voting rights of shareholders. Ordinary shares in the Company each carry a right to vote on a poll at any general meeting of shareholders on any resolution. Holders of ordinary shares may vote at a meeting in person, or by proxy, representative or attorney. Voting may be conducted by voice, a show of hands or a poll. Each of the Company's ordinary shares entitles the holder to one vote.

ON-MARKET SHARE BUY-BACKS

The Company is not, at the date of this annual report, undertaking any on-market share buy-backs.

ESCROW

Apart from the shares held under the Staff Purchase Plan, the Company has no securities subject to an escrow agreement.

DIVIDENDS ON ORDINARY SHARES

The Warehouse Group Limited has paid dividends on its ordinary shares every year since listing on the New Zealand Exchange in 1994. The Group's current dividend policy was approved by the Board in September 2015, commencing from the 2016 financial year. The Group's dividend policy is to distribute between 75% and 85% of the Retail Group's adjusted net profit to shareholders.

No dividends were declared for the current financial year.

Dividends	2020	2019	2018	2017	2016
Interim	0.0	9.0	10.0	10.0	11.0
Final	0.0	8.0	6.0	6.0	5.0
Total	0.0	17.0	16.0	16.0	16.0

AUDITOR

PricewaterhouseCoopers has continued to act as auditors of the Company and have undertaken the audit of the financial statements for the year ending 2 August 2020.

DISCIPLINARY ACTION

The NZX has not taken any disciplinary action against the Company during the period under review.

DONATIONS

In accordance with section 211(1)(h) of the Companies Act 1993, the Company records that it donated $134,000 (2019: $89,000) to various charities during the year. In line with Board policy, no political contributions were made during the year.

NZX WAIVERS

Details of all waivers granted and published by NZX within or relied upon by the Company in the 12 months immediately preceding the date two months before the date of publication of this annual report are available on the Company's website *www.thewarehousegroup.co.nz*.

Directory

Board of Directors
Joan Withers (Chair)
Keith Smith (Deputy Chair)
Robbie Tindall (alternate to Sir Stephen Tindall)
Tony Balfour
John Journee
Will Easton
Julia Raue
Dean Hamilton

Group Chief Executive Officer
Nick Grayston

Group Chief Financial Officer
Jonathan Oram

Company Secretary (Acting)
Erin Vercoe

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 4, 4 Graham Street
PO Box 2219
Auckland 1140, New Zealand

Auditor
PricewaterhouseCoopers
Private Bag 92162
Auckland 1142, New Zealand

Shareholder Enquiries
Shareholders with enquiries regarding the 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

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

Stock Exchange Listing
NZX trading code: WHS

New Zealand Business Number (NZBN)
New Zealand Incorporation: 9429038766633

Website
www.thewarehousegroup.co.nz