

16 September 2011

Listed Company Relations
New Zealand Exchange Limited

The Warehouse Group Limited

Audited results for the 52 weeks ended 31 July 2011

Attached financial information as required by NZX listing Rule 10.4.2

1. Appendix 1 disclosures for the 52 weeks ended 31 July 2011
2. Operational Highlights for the 52 weeks ended 31 July 2011 together with fourth quarter sales
3. Media Release
4. Appendix 7 detailing a distribution of ordinary dividend of 6.5 cps to be paid on 16 November 2011 to those shareholders on the company's share register as at 5.00pm NZT 4 November 2011
5. Audited Financial Statements for the 52 weeks ended 31 July 2011, and the Auditors' Report thereon

Kerry Nickels
Company Secretary

THE WAREHOUSE GROUP LIMITED	
Results for announcement to the market	
Reporting Period	2 August 2010 to 31 July 2011
Previous Reporting Period	3 August 2009 to 1 August 2010

The information below supplements the information disclosed in the attached financial statements and management commentary. All figures are NZ\$ unless otherwise stated.

	Amount (NZ\$ 000s)	Percentage change
Revenue from ordinary activities	NZ\$ 1,667,777	down (0.3)%
Profit from ordinary activities after tax attributable to shareholders	NZ\$ 77,829	up 29.3 %
Net profit attributable to shareholders	NZ\$ 77,829	up 29.3 %

Distributions	Amount per share	Imputed amount per share
Final dividend	6.50 cents	2.7857 cents
Interim dividend	15.50 cents	6.6429 cents

Distributions	Record date	Payment date
Final dividend	04 November 2011	16 November 2011
Interim dividend	08 April 2011	20 April 2011

Asset Backing	July 2011	July 2010
Net asset backing per ordinary share	87.7 cents	98.0 cents
Net tangible asset backing per ordinary share	81.8 cents	91.2 cents

Accounting Standards

The Group has prepared its financial statements in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS).

Basis of Report

The market announcement is based on financial statements which have been audited. The audit report is provided together with the financial statements which accompany this announcement.

16 September 2011

THE WAREHOUSE GROUP LIMITED

Audited results for the 52 weeks ended 31 July 2011

The Warehouse Group Limited has today announced its audited results for the 52 weeks ended 31 July 2011

OVERVIEW

- Positive sales momentum maintained in all growth categories
- On-line sales doubled with continued range expansion and increased traffic to site
- Warehouse Stationery sales up 4.1%
- Property program on track to deliver planned footprint expansion
- A difficult year for consumer electronics sector
- Structural pressures continue to significantly impact entertainment category

PROFIT AND DIVIDEND

- Net profit after tax, excluding unusual items, \$76.0 million compared to \$83.4 million in F10
- Reported net profit after tax \$77.8 million compared to \$60.2 million in F10 (which included a \$23.0 million deferred tax adjustment)
- Final dividend down 2.0 cps to 6.5 cps to give a total ordinary dividend for the year of 22.0 cps (down 8.9%)
- Dividends to be paid fully imputed at a rate of 30.0 percent

GROUP FINANCIAL SUMMARY

- Sales down 0.3% to \$1.67 billion
- Operating profit down 8.0% to \$114.1 million
- Adjusted earnings per share 24.6 cps compared to 27.0 cps F10
- Operating cash flow \$96.9 million compared to \$129.2 million F10
- Capital expenditure \$67.6 million compared to \$55.7 million F10
- Net debt \$126.1 million compared to \$72.4 million F10

THE WAREHOUSE OPERATING PERFORMANCE

	2011	2010	Change
Sales (\$millions)	1,462.9	1,476.2	-0.9%
Operating profit (\$millions)	98.8	112.7	-12.3%
Total assets (\$millions)	340.8	326.6	+4.3%

- Sales for the year down 0.9% to \$1,462.9 million
- Same store sales down 0.9%, H2 up 1.4%
- Operating profit down 12.3% to \$98.8 million
- Operating margin 6.8% compared to 7.6% in F10

WAREHOUSE STATIONERY OPERATING PERFORMANCE

	2011	2010	Change
Sales (\$millions)	201.5	193.6	+4.1%
Operating profit (\$millions)	10.1	8.0	+25.6%
Total assets (\$millions)	59.4	52.9	+12.3%

- Sales for the year up 4.1% to \$201.5 million
- Same store sales up 4.6%, H2 up 6.0%
- Operating profit up 25.6% to \$10.1 million
- Operating margin 5.0% compared to 4.2% F10

FINANCIAL POSITION

1. Gearing and Debt Servicing

- Book gearing 31.7% (19.3% F10)
- Net interest cover 12.1 times EBIT (17.1 times F10)
- Fixed charges cover 3.1 times EBITDAR (3.4 times F10)
- Net debt to EBITDA 0.8 times (0.4 times F10)

2. Assets and Capital Expenditure

- Total assets decreased to \$640.1 million (\$675.0 million F10) due mainly to a decrease in cash balances
- Cash on hand decreased by \$78.2 million to \$23.0 million
- Total gross capital expenditure for the year increased by \$11.9 million to \$67.6 million
- The increase in capital expenditure related mainly to the purchase of property at Lunn Avenue, construction of new Gisborne store and development of Silverdale retail centre

3. Cash Flow

- Operating cash flow \$96.9 million
- Free cash inflow \$37.5 million
- Net cash outflow \$53.7 million
- Cash conversion ratio 85.3%

4. Dividend

- An ordinary dividend of 6.5 cps will be paid to shareholders on 16 November 2011
- Dividend entitlement date 4 November 2011
- Dividends fully imputed at a rate of 30.0 percent

OUTLOOK

- Earnings are significantly influenced by trading performance over the critical January quarter with earnings guidance only provided post Christmas trading.
- However, having assessed a number of factors including the shorter term impact of the Group's strategic plan and reinvestment program, the board is of the view that earnings for F12 are likely to fall below that achieved in F11 and therefore below current market consensus
- F12 adjusted NPAT is projected to be in the order of \$70.0 million.
- A sales update for the Q1 F12 period ending 30 October 2011, is due for release on Friday, 11 November 2011
- Subject to any event or material change in trading conditions that may trigger a continuous disclosure obligation, earnings guidance will be updated at the time of the half year result announcement in March 2012.

RESULT BRIEFING

- A post result briefing will be conducted today at 9.30am NZT. The audio of the briefing will be broadcast live via audio cast on www.thewarehouse.co.nz from 9.30am NZT.

ENDS

Approved by

G F Evans

Chairman

The Warehouse Group Limited

Contact details:

Investors and Analysts

Luke Bunt

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Media

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THE WAREHOUSE GROUP LIMITED	
Supplementary Information	
Reporting Period	2 August 2010 to 31 July 2011
Previous Reporting Period	3 August 2009 to 1 August 2010

SUMMARY INCOME STATEMENT

(NZ \$000)	2011	2010	% Change
The Warehouse	1,462,912	1,476,219	- 0.9%
Warehouse Stationery	201,453	193,599	+ 4.1%
Other group operations	8,320	8,107	
Inter-segment eliminations	(4,908)	(5,230)	
SALES	1,667,777	1,672,695	- 0.3%
The Warehouse	98,777	112,664	- 12.3%
Warehouse Stationery	10,103	8,044	+ 25.6%
Other group operations	5,256	3,341	
OPERATING PROFIT	114,136	124,049	- 8.0%
Gain on disposal of property	1,470	-	
Changes in fair value of financial instruments	194	(282)	
Equity earnings of associate	3,575	2,808	
EBIT	119,375	126,575	- 5.7%
Net interest expense	(9,845)	(7,409)	
Income tax expense	(31,385)	(58,626)	
Minority interests	(316)	(355)	
TAX PAID PROFIT	77,829	60,185	+ 29.3%
ADJUSTED PROFIT	76,027	83,418	- 8.9%
OPERATING MARGIN			
The Warehouse	6.8 %	7.6 %	- 80 bp
Warehouse Stationery	5.0 %	4.2 %	+ 80 bp
Total Group	6.8 %	7.4 %	- 60 bp
TAX PAID PROFIT MARGIN	4.7 %	3.6 %	+ 110 bp

THE WAREHOUSE GROUP LIMITED	
Supplementary Information	
Reporting Period	31 July 2011
Previous Reporting Period	1 August 2010

SUMMARY BALANCE SHEET

(NZ \$000)	2011	2010
Parent shareholder's equity	271,215	302,906
Minority interest	325	340
TOTAL EQUITY	271,540	303,246
Borrowings	149,129	98,642
Derivatives	8,568	3,269
Deferred taxation	-	5,597
Provisions	10,095	16,637
TERM LIABILITIES	167,792	124,145
Bank overdraft and borrowings	-	75,000
Trade and other payables	128,913	120,056
Derivatives	25,903	3,586
Current taxation	7,202	11,350
Provisions	38,773	37,649
CURRENT LIABILITIES	200,791	247,641
TOTAL EQUITY AND LIABILITIES	640,123	675,032
Cash and deposits	23,016	101,226
Trade and other receivables	24,378	16,929
Inventories	262,663	254,606
Derivatives	-	167
Available for sale land and buildings	5,744	-
CURRENT ASSETS	315,801	372,928
Trade and other receivables	1,413	2,091
Fixed assets	310,354	293,386
Investments	7,585	5,921
Derivatives	1,138	706
Deferred taxation	3,832	-
NON CURRENT ASSETS	324,322	302,104
TOTAL ASSETS	640,123	675,032

THE WAREHOUSE GROUP LIMITED	
Supplementary Information	
Reporting Period	2 August 2010 to 31 July 2011
Previous Reporting	3 August 2009 to 1 August 2010

Details of dividends declared or paid during or subsequent to the year ended 1 August 2010 are as follows:

Type	Record date	Payment date	Amount per share	Total dividend (NZ\$ 000s)	Imputation credits	Supplementary dividend
Final dividend	05-Nov-10	17-Nov-10	8.50 cents	26,451	3.6429 cents	1.5000 cents
Special dividend	05-Nov-10	17-Nov-10	5.00 cents	15,560	2.1429 cents	0.8824 cents
Interim dividend	08-Apr-11	20-Apr-11	15.50 cents	48,235	6.6429 cents	2.7353 cents
Final dividend	04-Nov-11	16-Nov-11	6.50 cents	20,228	2.7857 cents	1.1471 cents

New Zealand imputation credits are attached to each dividend payment. A supplementary dividend is attached to each dividend paid to non-resident shareholders. The Warehouse Group Limited does not operate any type of dividend reinvestment plan.

THE WAREHOUSE GROUP LIMITED	
Quarterly Sales Information	
Reporting Period	2 May 2011 to 31 July 2011
Previous Reporting Period	3 May 2010 to 1 August 2010

Quarterly sales information:

Fourth quarter sales (2 May 2011 to 31 July 2011)	Sales 2011 (NZ\$ Million)	Sales 2010 (NZ\$ Million)	Change in sales	Change in same store sales
The Warehouse	327.8	331.1	- 1.0 %	+ 0.6 %
Warehouse Stationery	48.9	45.2	+ 8.2 %	+ 7.1 %

Year to date sales (2 August 2010 to 31 July 2011)	Sales 2011 (NZ\$ Million)	Sales 2010 (NZ\$ Million)	Change in sales	Change in same store sales
The Warehouse	1,462.9	1,476.2	- 0.9 %	- 0.9 %
Warehouse Stationery	201.5	193.6	+ 4.1 %	+ 4.6 %

Store Numbers	The Warehouse		Warehouse Stationery	
	2011	2010	2011	2010
Start Quarter 4	88	87	51	47
End Quarter 4	88	87	51	47

Store footprint (Square Metres)	The Warehouse		Warehouse Stationery	
	2011	2010	2011	2010
Start Quarter 4	475,498	470,156	57,990	56,101
End Quarter 4	476,115	470,156	58,307	56,101

Store changes during the quarter	Closed stores	Replacement stores	New Location	Store Extension
The Warehouse	-	-	-	1
Warehouse Stationery	-	-	1	1

MEDIA RELEASE

THE WAREHOUSE GROUP ANNOUNCES ANNUAL RESULT

Auckland, 16 September 2011 – The board of The Warehouse Group today announced an adjusted net profit after tax for the year ended 31 July 2011, excluding unusual items, of \$76.0 million compared to \$83.4 million in F10, down 8.9%. Net profit after tax for the second half, excluding unusual items was \$23.1 million compared to \$26.3 million in the second half last year.

Group sales for the year were \$1.667 billion down 0.3% on the previous year. Sales for the second half were \$759.8 million compared to \$753.8 million last year, up 0.8%.

The Directors have declared a final dividend of 6.5 cents per share bringing ordinary dividends for the year to 22.0 cents per share, down 2.0 cents. Dividends will be fully imputed at 30.0 per cent.

Reported net profit after tax for the year was \$77.8 million. This compares to reported net profit after tax for the previous year of \$60.2 million which included a \$22.8 million non cash charge required as a result of changes made to the deductibility for income tax purposes of depreciation on certain buildings.

In commenting on the 2011 results Chief Executive Officer Mark Powell said "while the underlying results are down on last year, in the four months since becoming Group CEO I can see that the core business is sound and I'm confident that our three year reinvestment strategy will deliver positive results but it will take time to build momentum".

Mr Powell went on to say that looking forward the company was now focused on implementing a strategy based on improved retail execution and significant capital reinvestment in the company's stores.

"We are very confident that customers will respond positively to what we're doing, we believe this will translate into sustainable sales and earnings growth over the medium to long-term" Mr Powell said.

The Warehouse reported sales of \$1.463 billion compared to \$1.476 billion in F10. Both total sales and same store sales were down 0.9% for the year. Sales for the second half were

\$654.9 million, flat on the comparable period last year with same store sales up 1.4% for the half. The Warehouse delivered an operating profit of \$98.8 million for the year compared to \$112.7 million last year, down 12.3%.

Warehouse Stationery reported sales of \$201.5 million compared to \$193.6 million in F10, up 4.1%. Same store sales were up 4.6% for the year. Sales for the second half were \$103.4 million, up 6.1% with same store sales for the period up 6.0%.

Warehouse Stationery achieved an operating profit of \$10.1 million for the year. This compares to operating profit for F10 of \$8.0 million which included one off charges totalling \$1.2 million relating to restructuring of the company's distribution function.

Chairman, Graham Evans said "whilst the general economic outlook for New Zealand supported ongoing improvement in consumer confidence, a number of factors both domestic and international, point to an economic backdrop characterised by continued uncertainty and volatility. As such the extent of any underlying growth in retail spending is uncertain and some pressure on earnings is likely to remain in the short term as we work through the early stages of implementing our strategy".

Recognising the short term impact of the company's strategy, the Board has indicated that subject to any material change in the trading environment, adjusted net profit after tax for the 2012 financial year is expected to be in the order of \$70 million with reported net profit after tax for the 2012 financial year expected to be in the order of \$80 million.

The final dividend will be paid on 16 November 2011 with the entitlement date being 4 November 2011.

A sales update for Q1 F12, ending 30 October 2011 is due for release on 11 November 2011.

ENDS

Background: The Warehouse Group Limited

The Warehouse Group Limited comprises 88 Warehouse stores and 51 Warehouse Stationery stores in New Zealand. The company has a turnover of \$1.67 billion and employs over 8,000 people.

Historical Dividend Distributions (fully imputed)

Dividends (cents)	2011	2010	2009	2008	2007
Interim	15.5	15.5	15.5	15.5	12.0
Final	6.5	8.5	5.5	5.5	5.5
Sub Total	22.0	24.0	21.0	21.0	17.5
Special	-	6.5	10.0	-	35.0
Total	22.0	30.5	31.0	21.0	52.5

Contact details

Investors and Analysts

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Media

Mark Powell, Group CEO to be contacted via
Wendy Irving on +64 9 488 3231

Notice of event affecting securities

New Zealand Stock Exchange Listing Rule 7.12.2. For rights, Listing Rules 7.10.9 and 7.10.10. For change to allotment, Listing Rule 7.12.1, a separate advice is required.

Number of pages including this one
(Please provide any other relevant details on additional pages)

Full name of Issuer	THE WAREHOUSE GROUP LIMITED		
Name of officer authorised to make this notice	Graham Evans	Authority for event, e.g. Directors' resolution	Directors' resolution
Contact phone number	(09) 489 8900	Contact fax number	(09) 488 3241
		Date	15 / 09 / 2011

Nature of event Tick as appropriate	Bonus Issue <input type="checkbox"/>	If ticked, state whether:	Taxable <input type="checkbox"/> / Non Taxable <input type="checkbox"/>	Conversion <input type="checkbox"/>	Interest <input type="checkbox"/>	Rights Issue Renounceable <input type="checkbox"/>
	Rights Issue non-renounceable <input type="checkbox"/>	Capital change <input type="checkbox"/>	Call <input type="checkbox"/>	Dividend <input type="checkbox"/>	If ticked, state whether: Interim <input type="checkbox"/>	Full Year <input checked="" type="checkbox"/>
						Special <input type="checkbox"/>

EXISTING securities affected by this

If more than one security is affected by the event, use a separate form.

Description of the class of securities	Ordinary Shares (311,195,868)	ISIN	NZ WHSE 000 156
			If unknown, contact NZX

Details of securities issued pursuant to this event

If more than one class of security is to be issued, use a separate form for each class.

Description of the class of securities		ISIN	
			If unknown, contact NZX
Number of Securities to be issued following event		Minimum Entitlement	
Conversion, Maturity, Call Payable or Exercise Date		Treatment of Fractions	
Strike price per security for any issue in lieu or date Strike Price available.		Enter N/A if not applicable	
		Tick if <i>pari passu</i> <input type="checkbox"/>	OR provide an explanation of the ranking

Monies Associated with Event

Dividend payable, Call payable, Exercise price, Conversion price, Redemption price, Application money.

In dollars and cents	Amount per security	\$0.065	Source of Payment	Retained earnings
Excluded income (only applicable to PIEs)	Not Applicable			
Currency	New Zealand dollars		Supplementary dividend details - Listing Rule 7.12.7	Amount per security in dollars and cents
Total monies	\$20,227,731			\$0.011471
				Date Payable
				16 November, 2011

Taxation

In the case of a taxable bonus issue state strike price	\$	Amount per Security in Dollars and cents to six decimal places
Resident Withholding Tax	\$0.002786	Imputation Credits (Give details)
Foreign Withholding Tax	\$0.000000	FWP Credits (Give details)
		\$0.027857
		\$0.000000

Timing

(Refer Appendix 8 in the Listing Rules)

Record Date 5pm For calculation of entitlements -	4 November, 2011	Application Date Also, Call Payable, Dividend / Interest Payable, Exercise Date, Conversion Date. In the case of applications this must be the last business day of the week.	16 November, 2011
Notice Date Entitlement letters, call notices, conversion notices mailed		Allotment Date For the issue of new securities. Must be within 5 business days of record date.	

OFFICE USE ONLY

Ex Date:
Commence Quoting Rights:
Cease Quoting Rights 5pm:
Commence Quoting New Securities:
Cease Quoting Old Security 5pm:

Security Code:

Security Code:

The Warehouse Group Limited

Financial Statements

For the 52 week period ended 31 July 2011

Financial Statements

For the 52 week period ended 31 July 2011

The Warehouse Group Limited is a limited liability company incorporated and domiciled in New Zealand. The address of its registered office is Level 8, 120 Albert Street, PO Box 2219, Auckland.

These financial statements have been approved for issue by the Board of Directors on 15 September 2011.

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Income Statements

For the 52 week period ended 31 July 2011

		(52 weeks)	(52 weeks)	(52 weeks)	(52 weeks)
	Note	Group 2011	Group 2010	Parent 2011	Parent 2010
		\$ 000	\$ 000	\$ 000	\$ 000
Revenue		1,667,777	1,672,695	-	-
Cost of sales		(1,061,478)	(1,064,012)	-	-
Gross Profit		606,299	608,683	-	-
Other income	6	6,485	6,984	90,246	101,139
Employee expense	7	(267,799)	(268,665)	-	-
Lease and occupancy expense	8	(81,942)	(78,330)	-	-
Depreciation and amortisation expense	9	(39,772)	(40,937)	-	-
Other operating expenses	10	(109,135)	(103,686)	(3)	(3)
Operating profit		114,136	124,049	90,243	101,136
Gain on disposal of property	25	1,470	-	-	-
Changes in fair value of financial instruments	4	194	(282)	-	-
Equity earnings of associate	27	3,575	2,808	-	-
Earnings before interest and tax		119,375	126,575	90,243	101,136
Net interest expense	11	(9,845)	(7,409)	-	-
Profit before tax		109,530	119,166	90,243	101,136
Income tax expense before Government Budget changes	13	(32,022)	(35,590)	1	1
Income tax expense relating to Government Budget changes	13	637	(23,036)	-	-
Income tax expense		(31,385)	(58,626)	1	1
Net profit for the period		78,145	60,540	90,244	101,137
Attributable to:					
Shareholders of the parent		77,829	60,185	90,244	101,137
Minority interests	32	316	355	-	-
		78,145	60,540	90,244	101,137
Basic earnings per share	16	25.1 cents	19.5 cents		
Diluted earnings per share	16	25.0 cents	19.4 cents		
Net assets per share	17	87.7 cents	98.0 cents		

Statements of Comprehensive Income

For the 52 week period ended 31 July 2011

		(52 weeks)	(52 weeks)	(52 weeks)	(52 weeks)
		Group 2011	Group 2010	Parent 2011	Parent 2010
		\$ 000	\$ 000	\$ 000	\$ 000
Net profit for the period		78,145	60,540	90,244	101,137
Changes in cash flow hedge reserve					
Movement in cash flow hedges	22	(27,786)	23,934	-	-
Income tax relating to movement in cash flow hedges	24	7,689	(7,204)	-	-
Other comprehensive income		(20,097)	16,730	-	-
Total comprehensive income		58,048	77,270	90,244	101,137
Total comprehensive income for the period is attributable to:					
Shareholders of the company		57,732	76,915	90,244	101,137
Minority interest		316	355	-	-
Comprehensive income		58,048	77,270	90,244	101,137

Balance Sheets

As at 31 July 2011

	Note	Group 2011 \$ 000	Group 2010 \$ 000	Parent 2011 \$ 000	Parent 2010 \$ 000
ASSETS					
Current assets					
Cash and cash equivalents	18	23,016	101,226	2,526	2,530
Trade and other receivables	21	24,378	16,929	-	-
Inventories	19	262,663	254,606	-	-
Available for sale land and buildings	25	5,744	-	-	-
Derivative financial instruments	22	-	167	-	-
Taxation receivable	23	-	-	1,034	1,079
Total current assets		315,801	372,928	3,560	3,609
Non-current assets					
Trade and other receivables	21	1,413	2,091	-	-
Property, plant and equipment	25	291,922	272,346	-	-
Computer software	26	18,432	21,040	-	-
Investments	27	7,585	5,921	42,000	42,000
Derivative financial instruments	22	1,138	706	-	-
Intercompany advances	39	-	-	316,508	316,149
Deferred taxation	24	3,832	-	-	-
Total non-current assets		324,322	302,104	358,508	358,149
Total assets	5	640,123	675,032	362,068	361,758
LIABILITIES					
Current liabilities					
Borrowings	29	-	75,000	-	-
Trade and other payables	20	128,913	120,056	949	949
Derivative financial instruments	22	25,903	3,586	-	-
Taxation payable	23	7,202	11,350	-	-
Provisions	28	38,773	37,649	-	-
Total current liabilities		200,791	247,641	949	949
Non-current liabilities					
Borrowings	29	149,129	98,642	98,792	98,480
Derivative financial instruments	22	8,568	3,269	-	-
Provisions	28	10,095	16,637	-	-
Deferred taxation	24	-	5,597	-	-
Total non-current liabilities		167,792	124,145	98,792	98,480
Total liabilities	5	368,583	371,786	99,741	99,429
Net assets		271,540	303,246	262,327	262,329
EQUITY					
Contributed equity	30	244,060	243,183	251,445	251,445
Reserves	31	(21,292)	(585)	-	-
Retained earnings	33	48,447	60,308	10,882	10,884
Total equity attributable to shareholders		271,215	302,906	262,327	262,329
Minority interest	32	325	340	-	-
Total equity		271,540	303,246	262,327	262,329

Statements of Cash Flows

For the 52 week period ended 31 July 2011

		(52 weeks)	(52 weeks)	(52 weeks)	(52 weeks)
	Note	Group 2011	Group 2010	Parent 2011	Parent 2010
		\$ '000	\$ '000	\$ '000	\$ '000
Cash flows from operating activities					
Cash received from customers		1,668,968	1,687,894	-	-
Dividends received from subsidiary companies		-	-	90,246	101,139
Interest income		1,896	927	7,370	1,240
Payments to suppliers and employees		(1,525,886)	(1,529,539)	(4)	(3)
Income tax paid		(36,235)	(22,181)	-	-
Interest paid		(11,833)	(7,950)	(7,370)	(1,240)
Net cash flows from operating activities		96,910	129,151	90,242	101,136
Cash flows from investing activities					
Proceeds from sale of property, plant & equipment and computer software		5,567	401	-	-
Staff share purchase advances repaid		622	84	-	-
Advances (to) / from subsidiary companies		-	-	1,033	(97,317)
Dividend received from associate	27	1,911	4,263	-	-
Purchase of property, plant & equipment and computer software		(65,896)	(57,280)	-	-
Refund of staff share purchase advances		(29)	(2)	-	-
Warranty claims	28	(59)	-	-	-
Net cash flows from investing activities		(57,884)	(52,534)	1,033	(97,317)
Cash flows from financing activities					
Net proceeds from fixed rate senior bond		-	98,400	-	98,400
Repayment of term bank borrowings		(25,000)	(25,000)	-	-
Purchase of treasury stock	30	(1,042)	-	-	-
Treasury stock dividends received	33	416	940	-	-
Dividends paid to parent shareholders		(91,279)	(102,217)	(91,279)	(102,217)
Dividends paid to minority shareholders	32	(331)	(266)	-	-
Net cash flows from financing activities		(117,236)	(28,143)	(91,279)	(3,817)
Net cash flow		(78,210)	48,474	(4)	2
Opening cash position		101,226	52,752	2,530	2,528
Closing cash position	18	23,016	101,226	2,526	2,530

Reconciliation of Operating Cash Flows

For the 52 week period ended 31 July 2011

		(52 weeks)	(52 weeks)	(52 weeks)	(52 weeks)
	Note	Group 2011 \$ '000	Group 2010 \$ '000	Parent 2011 \$ '000	Parent 2010 \$ '000
Profit after tax		78,145	60,540	90,244	101,137
Non-cash items					
Depreciation and amortisation expense	5	39,772	40,937	-	-
Share based payment expense	31	1,640	2,609	-	-
Interest capitalisation		(61)	57	312	80
Movement in deferred tax	24	(1,740)	23,237	-	-
Changes in fair value of financial instruments	4	(194)	282	-	-
Share of surplus retained by associate	27	(3,575)	(2,808)	-	-
Total non-cash items		35,842	64,314	312	80
Items classified as investing or financing activities					
Net (gain) / loss on sale of property, plant and equipment		(462)	1,623	-	-
Canterbury earthquakes	12	-	-	-	-
Supplementary dividend tax credit	23	1,033	1,078	1,033	1,078
Total investing and financing adjustments		571	2,701	1,033	1,078
Changes in assets and liabilities					
Trade and other receivables		(7,432)	8,076	-	-
Inventories		(8,057)	3,337	-	-
Intercompany advances		-	-	(1,392)	(1,030)
Trade and other payables		7,348	(15,950)	-	949
Provisions		(5,359)	(5,774)	-	-
Income tax		(4,148)	11,907	45	(1,078)
Total changes in assets and liabilities		(17,648)	1,596	(1,347)	(1,159)
Net cash flows from operating activities		96,910	129,151	90,242	101,136

Statements of Changes in Equity

For the 52 week period ended 31 July 2011

Group	Share Capital \$ 000	Treasury Stock \$ 000	Cash Flow Hedge Reserve \$ 000	Employee Share Benefits Reserve \$ 000	Retained Earnings \$ 000	Minority Interest \$ 000	Total Equity \$ 000
For the 52 week period ended 31 July 2011							
Balance at the beginning of the period	251,445	(8,262)	(4,007)	3,422	60,308	340	303,246
Net profit for the period	-	-	-	-	77,829	316	78,145
Net change in fair value of cash flow hedges	-	-	(20,097)	-	-	-	(20,097)
Total comprehensive income	-	-	(20,097)	-	77,829	316	58,048
Share based payments charged to the income statement	-	-	-	1,640	-	-	1,640
Share rights exercised	-	2,110	-	(2,250)	140	-	-
Dividends paid	-	-	-	-	(90,246)	(331)	(90,577)
Treasury stock dividends received	-	-	-	-	416	-	416
Purchase of treasury stock	-	(1,233)	-	-	-	-	(1,233)
Balance at the end of the period	251,445	(7,385)	(24,104)	2,812	48,447	325	271,540
	(note: 30)	(note: 30)	(note: 31)	(note: 31)	(note: 33)	(note: 32)	

For the 52 week period ended 1 August 2010

Balance at the beginning of the period	251,445	(14,356)	(20,737)	3,654	100,887	251	321,144
Profit for the period	-	-	-	-	60,185	355	60,540
Net change in fair value of cash flow hedges	-	-	16,730	-	-	-	16,730
Total comprehensive income	-	-	16,730	-	60,185	355	77,270
Share based payments charged to the income statement	-	-	-	2,609	-	-	2,609
Share rights exercised	-	1,751	-	(2,471)	720	-	-
Shares issued to employee share purchase plan	-	4,355	-	(370)	(1,285)	-	2,700
Dividends paid	-	-	-	-	(101,139)	(266)	(101,405)
Treasury stock dividends received	-	-	-	-	940	-	940
Purchase of treasury stock	-	(12)	-	-	-	-	(12)
Balance at the end of the period	251,445	(8,262)	(4,007)	3,422	60,308	340	303,246
	(note: 30)	(note: 30)	(note: 31)	(note: 31)	(note: 33)	(note: 32)	

Parent	Share Capital \$ 000	Retained Earnings \$ 000	Total Equity \$ 000
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For the 52 week period ended 31 July 2011

Balance at the beginning of the period	251,445	10,884	262,329
Total comprehensive income	-	90,244	90,244
Dividends paid	-	(90,246)	(90,246)
Balance at the end of the period	251,445	10,882	262,327
	(note: 30)	(note: 33)	

For the 52 week period ended 1 August 2010

Balance at the beginning of the period	251,445	10,886	262,331
Total comprehensive income	-	101,137	101,137
Dividends paid	-	(101,139)	(101,139)
Balance at the end of the period	251,445	10,884	262,329
	(note: 30)	(note: 33)	

Notes to and forming part of the Financial Statements

For the 52 week period ended 31 July 2011

1. SUMMARY OF ACCOUNTING POLICIES

These financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice and New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS). The financial statements also comply with International Financial Reporting Standards (IFRS). The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial report includes separate financial statements for The Warehouse Group Limited (the "Parent") as an individual entity and the consolidated entity consisting of The Warehouse Group Limited and its subsidiaries (together the "Group").

Reporting entity

The Warehouse Group Limited is a company registered under the New Zealand Companies Act 1993 and is listed on the New Zealand and Australian stock exchanges. The Warehouse Group Limited is an issuer for the purposes of the New Zealand Financial Reporting Act 1993. The Group is designated as a profit oriented entity for financial reporting purposes. The consolidated financial statements of The Warehouse Group Limited have been prepared in accordance with the New Zealand Companies Act 1993 and New Zealand Financial Reporting Act 1993.

Functional and presentation currency

Items included in the Financial Statements of each of the Group's operations are measured using the currency of the primary economic environment in which the entity operates ("functional currency"). The financial statements are presented in New Zealand dollars, which is the Parent's functional and the Group's presentation currency. The New Zealand dollar amounts presented in these financial statements are rounded to the nearest thousands, unless otherwise stated. Ordinary shares and share rights/options disclosures are also rounded to the nearest thousands.

Reporting period

The Group has reported its full year result on a 52 week basis. The current year represents the 52 week period commencing 2 August 2010 to 31 July 2011. The prior full year comparative represents the 52 week period commencing 3 August 2009 to 1 August 2010.

Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and liabilities (including derivative instruments) at fair value through the income statement.

(a) Basis of consolidation

The consolidated financial statements include the parent company and its subsidiaries and associates.

Subsidiaries are all those entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The acquisition consideration is measured as the fair value of the assets acquired, equity interest issued and liabilities incurred or assumed at the acquisition date. The excess of the consideration transferred above the fair value of the identifiable net assets acquired is recognised as goodwill. If the consideration is less than the fair value of the net assets acquired, the difference is recognised directly in the Income Statement.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group, and are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated.

(b) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Associates have been recorded in the consolidated financial statements on an equity accounting basis, which recognises the Group's share of retained surpluses in the income statement and its share of post acquisition increases or decreases in net assets in the balance sheet.

(c) Statement of cash flows

The following definitions are used in the statement of cash flows:

- Operating activities are principal revenue producing activities of the Group that are not investing or financing activities.
- Investing activities are those activities relating to the acquisition, holding and disposal of property, plant and equipment and of investments.
- Financing activities are those activities that result in changes in the size and composition of the capital structure. This includes both equity and borrowings not falling within the definition of cash. Dividends paid in relation to the capital structure are included in financing activities.
- Cash comprises cash on hand and in transit, bank in funds and short term deposits offset by bank overdrafts.
- Cash flows relating to current and non-current borrowings are presented as net cash flows as gross cash inflows and outflows include day-to-day cash management.

Notes to and forming part of the Financial Statements - Continued

For the 52 week period ended 31 July 2011

1. SUMMARY OF ACCOUNTING POLICIES (continued)

(d) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances and duties and taxes paid. Revenue is recognised for the major business activities as follows:

- Retail Sales - Revenue is recognised at the point of sale when delivery takes place and the associated risks of ownership have passed to the customer. Products sold to customers have a right of return and an estimate for such returns are provided for at the time of sale based on historical return rates.
- Vouchers – Revenue from the sale of vouchers (gift cards, refunds and Christmas club) are recognised when the voucher is redeemed and the customer purchases goods, or when the customer voucher is no longer expected to be redeemed, based on an analysis of historical redemption rates.
- Lay-by sales - Lay-by sales are recognised when legal title to the goods passes to the customer.
- Interest revenue - Interest revenue is recognised when it is earned, using the effective interest method.
- Dividend income - Dividend income is recognised when the dividend is declared.

(e) Property, plant and equipment

Cost

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.

Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

The cost of self-constructed assets includes the cost of all materials used in construction, direct labour on the project, financing costs, and costs of obtaining regulatory consents that are directly attributable to the project.

Costs incurred on repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation

Property, plant and equipment are depreciated on a straight line basis to allocate the cost, less any residual value, over their useful life.

Estimated useful life of property, plant and equipment:

Freehold land	indefinite
Freehold buildings	50 - 100 years
Store fittings and equipment	4 - 12 years
Vehicles	5 - 8 years
Work in progress	not depreciated

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.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the income statement.

(f) Income tax

The income tax expense or revenue 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, and to unused tax losses.

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.

(g) 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.

(h) Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts.

(i) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct purchase cost and an appropriate proportion of supply chain variable expenditure. Cost also includes the transfer from equity of any gains or losses on qualifying hedges related to inventories. Costs are assigned to individual items of inventory on the basis of weighted average costs. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

(j) Investments in subsidiaries

Investments are stated at the lower of cost or net realisable value.

Notes to and forming part of the Financial Statements - Continued

For the 52 week period ended 31 July 2011

1. SUMMARY OF ACCOUNTING POLICIES (continued)

(k) Trade receivables

Trade receivables are recognised initially at fair value. 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 usually due for settlement no more than 120 days from the date of recognition for intercompany debtors, and no more than 60 days for other debtors.

Collectibility of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for impaired receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the estimated recoverable amount. The amount of the provision is recognised in the income statement.

(l) Leases

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

(m) Intangible assets

Computer software - All costs directly incurred in the purchase or development of major computer software or subsequent upgrades and material enhancements, which can be reliably measured and are not integral to a related asset, are capitalised as intangible assets. Direct costs may include internal payroll and on-costs for employees directly associated with the project.

Costs incurred on computer software maintenance are expensed to the income statement as they are incurred.

Computer software is amortised over the period of time during which the benefits are expected to arise, being two to ten years. Amortisation commences once the computer software is available for use.

(n) Impairment of non-financial assets

Assets that are subject to amortisation or depreciation 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. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

(o) Employee benefits

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

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

(ii) 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.

(iii) Performance incentive payments

The Group recognises a liability and an expense for performance incentive payments (bonuses) based on a formula that takes into consideration individual performance and company performance linked to the profit attributable to the company's shareholders. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

(iv) Equity settled share-based compensation

Equity settled share-based compensation benefits are provided to employees in accordance with the Group's employee executive share rights plan. The fair value of share rights granted under the plan are recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the share rights.

The fair value at grant date of the share rights are independently determined using an appropriate valuation model that takes into account the exercise price, the term of the share right, the vesting and performance criteria, the impact of dilution, the non-tradeable nature of the share right, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the share right.

At each balance date, the Group revises its estimate of the number of share rights that are expected to become exercisable. The employee benefit expense recognised each period takes into account the most recent estimate.

Upon the vesting of share rights, the balance of the share-based payments reserve relating to the share rights is netted against the cost of treasury stock purchased to satisfy the obligation of settling the share based payment and any residual balance transferred to retained earnings.

Notes to and forming part of the Financial Statements - Continued

For the 52 week period ended 31 July 2011

1. SUMMARY OF ACCOUNTING POLICIES (continued)

(o) Employee benefits (continued)

(v) Cash settled share-based payments

The Group introduced a cash settled share-based compensation plan for holders of 'performance shares' (refer note 15) granted in November 2007.

Cash-settled share-based payments are recognised at the fair value of the liability incurred and are expensed over the period of the plan. The liability is remeasured at each balance sheet date to its fair value, with all changes recognised immediately as either a profit or a loss. Fair value is determined based on management's assessment of achieving the share price targets.

(vi) Employee share purchase plan

The employee share purchase plan provides employees with the opportunity to acquire shares in the Group. The fair value of shares granted is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the vesting period. The fair value of the shares granted has been assessed as being equal to the discount provided to participants when the shares are granted.

Interest free loans are provided to plan participants to finance the share purchases. The fair value of the interest free component of the loan is included in determining the discount of shares provided to participants and forms part of the employee benefit expense. The fair value interest free component of the loan is measured at grant date, using a bank five year swap rate. When the discount on the loan unwinds an amount is recognised as finance income.

(p) Derivatives

The Group is party to the following financial derivatives:

- Forward foreign exchange rate contracts
- Interest rate swaps
- Electricity hedge contracts

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 the exposure to variability in cash flows that is attributable either to a particular risk associated with a recognised asset or liability or 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 various hedge transactions.

The Group also documents its assessment, both at hedge inception and on an ongoing basis, 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.

(i) Cash flow hedge

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.

(ii) Fair value hedge

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

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

(iii) 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.

Notes to and forming part of the Financial Statements - Continued

For the 52 week period ended 31 July 2011

1. SUMMARY OF ACCOUNTING POLICIES (continued)

(q) Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes. The fair value of financial instruments traded in active markets (such as publicly traded derivatives) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price.

The fair value of forward exchange contracts is determined using forward exchange market rates at the balance date.

The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on the applicable market interest yield rates at balance date.

The fair value of electricity 'contracts for difference' is calculated as the present value of the estimated future cash flows based on available market electricity pricing at balance date.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values.

(r) Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are normally unsecured and are usually settled within 60 days of recognition.

(s) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) 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.

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. The capitalisation rate used to determine the amount of borrowing costs to be capitalised is based on a weighted average of the interest expense incurred by the Group. Other borrowing costs are recognised as an expense when incurred.

(t) Intercompany advances

Except for a loan of \$100.000 million (refer note 39 (f)) intercompany advances between the parent company and its subsidiaries are non interest bearing and repayable on demand. Management's expectation is that these advances will not be repaid within the next twelve months and have classified the advances as non-current assets.

(u) Provisions

Provisions are recognised when:

- the Group has a present legal or constructive obligation as a result of past events;
- it is more likely than not that an outflow of resources will be required to settle the obligation;
- the amount has been reliably estimated.

Provisions are not recognised for future operating losses. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

(v) Segment reporting

An operating segment is a Group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other operating segments. These segments form the basis of internal reporting used by Management and the Board of Directors to monitor and assess performance and assist with strategy decisions.

The Group currently operates solely within one geographical segment (New Zealand), and accordingly no geographical segment analysis is provided.

(w) Contributed equity

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.

(x) Dividends

Provision is made for the amount of any dividend declared, being appropriately authorised by the board of the Group, on or before the end of the financial year but not distributed at balance date.

(y) Foreign currencies

Transactions in foreign currencies are converted to New Zealand dollars at the exchange rate ruling at the date of the transaction. At balance date monetary assets and liabilities denominated in foreign currencies are retranslated to New Zealand dollars at the closing exchange rate, and exchange variations arising from these translations are recognised in the income statement.

(z) Operating profit

Operating profit represents earnings before taxation and interest adjusted for equity earnings from the Group's associate company and any unusual items. Unusual items includes profit and losses from the disposal of properties, the release of surplus warranty provisions and unrealised gains or losses from changes in the fair value of financial instruments.

Notes to and forming part of the Financial Statements - Continued

For the 52 week period ended 31 July 2011

1. SUMMARY OF ACCOUNTING POLICIES (continued)

(aa) Changes to accounting policies that have been adopted for new accounting standards and new interpretations in the preparation and presentation of the financial statements:

There have been no significant changes in accounting policies during the year, however certain comparatives have been restated to conform with the current years presentation.

(ab) New and proposed accounting standards, amendments and interpretations to existing standards that are relevant to the Group, but not yet effective, and have not been early adopted by the Group, are:

NZIFRS 9 Financial Instruments effective for periods beginning on or after 1 January 2013. This standard is part of the International Accounting Standards Board's (IASB) project to replace IAS 39 Financial Instruments. The new standard requires two primary measurement categories for financial assets, amortised cost and fair value, with classification depending upon the entity's business model, and the contractual cash flow characteristics of the financial asset. At its July 2011 meeting the IASB tentatively agreed to defer the mandatory effective date of IFRS 9 to periods beginning on or after 1 January 2015 with early application still permitted. The deferral of IFRS 9 will be proposed in an exposure draft, which has not yet been released. Management is currently in the process of evaluating the potential effect of adoption of NZ IFRS 9, but the impact of the standard is not expected to be material to the Group.

In August 2010, the IASB and U.S. Financial Accounting Standards Board (FASB) published joint exposure drafts (ED), with the IASB issuing ED 2010/9 Leases.

The ED proposes new models for lessee and lessor accounting, which significantly change the current lease accounting requirements. Under the proposed 'right-of-use' model, all leases would effectively be 'on balance sheet'. The calculation of recognised amounts would be based on an 'expected outcome' approach, requiring both up-front and continuous estimates of lease term, contingent rentals and residual guarantees.

The IASB and FASB noted in a press release in July 2011, that the decisions taken to date in response to feedback received following the release of the ED were sufficiently different from those published in the first ED to warrant re-exposure of the revised leasing proposal. The IASB and FASB intend to complete their deliberations during the third quarter of 2011 with a view to publishing a revised ED shortly thereafter.

Management will re-evaluate the potential effects of the revised exposure draft when it is released, however it is expected that any new standard on lease accounting will significantly impact both the Group's income statement and balance sheet. A new accounting standard is not expected to be released until at least 2012, with an effective date not expected to be earlier than 2015.

Notes to and forming part of the Financial Statements - Continued

For the 52 week period ended 31 July 2011

2. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the financial statements requires the Group to make judgements, estimates and assumptions that affect the reported amounts of assets and liabilities at balance date and the reported amounts of revenues and expenses during the year.

Management has identified the following critical accounting policies for which significant judgements, estimates and assumptions are made. Actual results may differ from these estimates under different assumptions and conditions and have a risk of causing a significant adjustment to the carrying amounts of assets and liabilities in future periods.

(a) Property, plant and equipment and computer software development (note 25, 26)

Capitalisation

Accounting for self-constructed assets requires judgements to be made about whether the costs incurred should be capitalised as they relate to bringing an asset to the location and condition necessary for its intended use, or if the costs should be expensed as incurred.

These distinctions can be difficult, for instance, in the area of store development, where project labour involves a number of pre-opening activities, such as the construction of store fixtures and fittings which are capitalised and shelf stocking costs which are expensed as incurred. The Group has policy guidelines which limit the amount of store development labour costs which are attributed to capital items. In addition to the allocation of labour costs to project work, judgements must be made about the likelihood of a project's success when software is being developed and new store sites are being pursued.

Depreciation

The determination of the appropriate useful life for a particular asset requires management to make judgements based on historical experience about the expected service potential of the asset, and other factors such as anticipated obsolescence, lease terms and asset turnover policies.

Impairment testing

The Group assesses impairment of assets that are subject to amortisation or depreciation by evaluating environmental conditions specific to the Group and to the particular asset to determine impairment. These include reviewing store performance, technology, economic environments, lease terms and future trading expectations. If an impairment trigger exists, the recoverable amount of the asset is determined to quantify the value of the impairment. Management's review of environmental conditions during the current financial year did not identify any impairment triggers to indicate asset impairment except for those assets damaged in the Canterbury earthquakes (refer note 12).

(b) Inventories (note 19)

Net realisable value

Inventories are stated at the lower of cost and net realisable value. To determine net realisable value, management are required to make judgements about expected selling prices, making allowance for price discounting to clear excess, seasonal and outdated items. Management review the net realisable value of inventory every six months at the half and full year balance dates. Any reassessment of net realisable value in a particular period affects the cost of goods sold.

Shrinkage

Shrinkage is a reduction in inventory due to shoplifting, employee theft, paperwork errors and supplier fraud. Shrinkage is confirmed by performing cyclical stock counts to verify inventory quantities against those recorded in the inventory records. A full stock count of individual stores and distribution centres are performed at least once each year, complimented by partial counts undertaken throughout the year which target areas of high risk, high turnover and end of season lines.

Management are required to estimate the amount of shrinkage which has occurred between the last stock count and balance date to determine the carrying value of inventory. In assessing an appropriate shrinkage provision, factors such as store sales since the last stock count, average inventory levels and historical store/distribution centre stocktake results are taken into consideration.

(c) Provisions (note 28)

Provisions

All the Group's provisions require management judgements, estimates and assumptions to determine the amount of the provision. The following provisions have the most significant impact on the Groups results.

Annual performance incentive payments

A provision is made for the annual performance incentive payment, which is paid after balance date. Team member incentive payments are calculated based on a formula which takes into consideration both company and individual performance. Management judgement is required to estimate anticipated team member performance before individual performance reviews have been completed.

Warranty provision

The warranty provision relates to indemnities and guarantees provided by the Group in connection with the sale of the Group's Australian operations in November 2005. The amount, which can be claimed by the purchaser and associated parties under the indemnities and guarantees, is largely capped. Management judgement is used to determine the Group's exposure to future warranty and guarantee claims.

Notes to and forming part of the Financial Statements - Continued

For the 52 week period ended 31 July 2011

2. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

(d) Insurance proceeds (note 12, 21)

The Group has lodged claims with its insurance providers in respect of costs and losses arising from the Canterbury earthquakes. Where these claims remain outstanding at balance date the Group has assessed the likelihood of recovery and the level of those amounts and accrued as income, only those amounts for which there is evidence to support the estimates and the insurance claims are receivable.

(e) Taxation (note 13, 23, 24)

The preparation of the financial statements requires management to make estimates about items that are not known at balance date or prior to the Group reporting its final result. There are also transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain.

Actual results may differ from the amounts that were initially recorded as a result of reassessment by management, the Group's tax advisors or tax authorities. Where the final tax outcome is different from the amounts that were initially recorded, such differences will impact the current and deferred tax provisions in the period in which the reassessment is made.

(f) Derivative financial instruments (note 4, 22)

The Group holds significant amounts of derivatives which are hedge accounted. The calculation of the fair values is determined in accordance with the accounting policy stated in Note 1 (p).

Notes to and forming part of the Financial Statements - Continued

For the 52 week period ended 31 July 2011

3. CAPITAL MANAGEMENT

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 uses adjusted gearing as a key measure of financial leverage. Adjusted gearing is calculated with reference to the Group's market capitalisation and borrowings adjusted for operating lease obligations. The Group aims to maintain adjusted gearing of 25% to 40% consistent with retail sector benchmarks. Management periodically review the retail sector benchmarks to ensure they remain appropriate and intend to undertake another benchmark review during the next financial year.

Group	2011	2010
Adjusted gearing ratio		
Number of shares on issue (000s)	311,196	311,196
Share price at balance date (\$)	3.54	3.53
Market capitalisation (\$000)	1,101,634	1,098,522
Net debt (\$000)	126,113	72,416
Annual operating leases - multiplied by eight (\$000)	479,992	469,312
Adjusted debt (\$000)	606,105	541,728
Adjusted gearing ratio (%)	35.5	33.0

The Group regularly reviews its capital structure and may make adjustments by means including changes to the Group's dividend payout ratio, return of surplus capital, issue of new shares, debt issuance, sale of assets or a combination of these. In the current economic environment the Group continues to manage its capital structure with the intention of maintaining conservative gearing ratios.

The Group's dividend policy is to pay a dividend equal to 90% of adjusted net profit (refer note 34). The Group also has a stated policy of returning surplus cash to shareholders where it is not required to fund growth in the immediate future. In compliance with this policy, a special dividend of 5.0 cents per share (2010: 11.5 cents per share) was paid to return excess capital to shareholders.

(a) Externally imposed capital requirements

Borrowings are subject to a negative pledge contained in two separate trust deeds held for the benefit of the Group's banking institutions and bondholders. The trust deeds provide a guarantee that the parent and its guaranteeing Group companies (refer note 39) will comply with certain quarterly debt ratios and restrictive covenants. The principal covenants, which are the same for both trust deeds are:

- the Group book gearing ratio will not exceed 60.0% in the first quarter ending October and will not exceed 50% in each of the remaining three quarters of the year;
- the interest cover ratio for the Group will not be less than 2 times operating profit;
- the total tangible assets of the guaranteeing Group will constitute at least 90% of the total tangible assets of the Group

Group	2011	2010
Book gearing ratio		
Total borrowings (\$000)	149,129	173,642
Total equity (\$000)	271,540	303,246
Gearing ratio (%)	35.5	36.4
Interest cover		
Net interest expense (\$000)	9,845	7,409
Operating profit (\$000)	114,136	124,049
Interest cover (times)	11.6	16.7

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

Notes to and forming part of the Financial Statements - Continued

For the 52 week period ended 31 July 2011

4. FINANCIAL RISK MANAGEMENT

Financial risk factors

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

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

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

(a) 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 policy requires funding to be sourced from a minimum of four counterparties and committed credit facilities to be maintained at an amount that averages at least 115% of peak funding requirements projected for the next two years. The Group's policy also requires that at least 30% of the Group's debt facilities have a maturity of greater than 3 years.

The Group's liquidity position fluctuates throughout the year. The months leading up to the Christmas trading period typically put the greatest strain on cash flows due to the build up of inventory and payment of the final dividend, conversely the Group's liquidity position is at its strongest immediately after the Christmas trading period. The Group's gearing covenants are increased from 50% to 60% for the first quarter of each financial year to allow for the effect of seasonal funding. (The Group's borrowing covenants are detailed in note 3).

The Group had the following committed credit facilities at balance date:

Group	2011	2010
	\$ '000	\$ '000
ANZ National Bank	48,000	58,000
Bank of New Zealand	40,000	50,000
Hong Kong and Shanghai Bank	20,000	20,000
Kiwibank	20,000	20,000
Westpac	75,000	110,000
Fixed Rate Senior Bond	100,000	100,000
	303,000	358,000

The remaining maturities of the committed credit facilities at balance date are:

Group	Note	Debt facilities		Letters of credit		Total facilities	
		2011	2010	2011	2010	2011	2010
		\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000
6 months or less		65,000	135,000	28,000	20,000	93,000	155,000
6 to 12 months		20,000	75,000	-	8,000	20,000	83,000
1 to 3 years		90,000	20,000	-	-	90,000	20,000
Over 3 years		100,000	100,000	-	-	100,000	100,000
		275,000	330,000	28,000	28,000	303,000	358,000
Facilities utilised	29, 36	150,000	175,000	13,184	15,899	163,184	190,899
Unused facilities available		125,000	155,000	14,816	12,101	139,816	167,101
Percentage utilisation		54.5 %	53.0 %	47.1 %	56.8 %	53.9 %	53.3 %

Notes to and forming part of the Financial Statements - Continued

For the 52 week period ended 31 July 2011

4. FINANCIAL RISK MANAGEMENT (continued)

(i) Contractual maturities

The table below analyses the Group's financial liabilities and derivatives into relevant maturity bands, based on the remaining period from balance date to the contractual maturity date. The cash flow amounts disclosed in the table represent undiscounted cash flows liable for payment by the Group.

Group	Note	0 to 6 Months	7 to 12 Months	1 to 2 Years	2 to 3 Years	> 3 Years	Total
		\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000
At 31 July 2011							
Financial liabilities							
Trade and other payables	20	128,913	-	-	-	-	128,913
Bank borrowings	29	50,000	-	-	-	-	50,000
Fixed rate senior bond	29	2,736	3,685	7,370	7,370	107,370	128,531
		181,649	3,685	7,370	7,370	107,370	307,444
Derivative net liabilities							
Forward currency contracts							
- outflow		117,451	68,681	66,250	-	-	252,382
- inflow		(98,690)	(60,286)	(58,011)	-	-	(216,987)
Interest rate swaps		743	472	625	323	438	2,601
		19,504	8,867	8,864	323	438	37,996
At 1 August 2010							
Financial liabilities							
Trade and other payables	20	120,056	-	-	-	-	120,056
Bank borrowings	29	75,000	-	-	-	-	75,000
Fixed rate senior bond	29	2,736	3,685	7,370	7,370	114,740	135,901
		197,792	3,685	7,370	7,370	114,740	330,957
Derivative net liabilities							
Forward currency contracts							
- outflow		122,981	52,831	-	-	-	175,812
- inflow		(119,993)	(51,131)	-	-	-	(171,124)
Electricity pricing contracts		197	-	-	-	-	197
Interest rate swaps		969	661	739	403	435	3,207
		4,154	2,361	739	403	435	8,092

The forward currency contracts "outflow" amounts disclosed in the table represent the gross amount payable by the Group for the purchase of foreign currency, whereas the "inflow" amounts represent the corresponding receipt of foreign currency arising from settlement of the contracts, converted using the spot rate at balance date.

The interest rate swaps and electricity pricing contracts are net-settled derivatives and the amounts disclosed in the table represent the net amount receivable or payable calculated using the New Zealand interest yield curve and electricity futures price curve effective at balance date. As the derivative amounts included in the table represent undiscounted cash flows, these amounts will not reconcile to the amounts disclosed on the balance sheet for derivatives.

To avoid duplication in the table above the amounts disclosed as due during the next six month period for the fixed rate senior bond is net of a \$0.949 million (2010: \$0.949 million) interest accrual which is included as part of trade and other payables.

(ii) Maturity analysis based on management's expectation

Management's expectation of the expected cash flows relating to the Group's financial liabilities and derivatives at balance date are broadly in line with the contractual maturities set out in the table above, with the exception of bank borrowings.

Bank borrowings at balance date are drawn down under a term debt facility by way of ninety day short term bills. These borrowings and the Group's fixed rate senior bond are defined as the Group's "core" borrowings for treasury management purposes. Bank borrowings at balance date have a contractual maturity of ninety days. It is management's expectation that the bank borrowings which form part of the Group's core borrowings will not be repaid until the expiry of the facility under which they have been drawn. At balance date the Group's bank borrowings of \$50.000 million were fully drawn against a term debt facility which expires in March 2014.

The Group's fixed rate senior bond is held by the parent company and represents the only financial liabilities held by the parent at balance date.

Notes to and forming part of the Financial Statements - Continued

For the 52 week period ended 31 July 2011

4. FINANCIAL RISK MANAGEMENT (continued)

(b) Market risk

(i) Interest rate risk

The Group's exposure to market interest rates primarily relates to the Group's core borrowings. The Group's treasury policy is to manage its finance costs using a mix of fixed and floating rate debt. The Group's policy is to maintain between 50% to 90% of core borrowings (repricing after twelve months) at fixed rates. At balance date 87% (2010: 86%) of the Group's core borrowings were at fixed interest rates. The Group uses fixed rate debt and interest rate swaps to manage the fixed interest rate pricing and profile.

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

Group Asset / (Liability)	Note	Carrying Amount	+ 100 basis points		- 100 basis points	
			Higher/(Lower)		Higher/(Lower)	
			Profit	Equity	Profit	Equity
		\$ '000	\$ '000	\$ '000	\$ '000	\$ '000
At 31 July 2011						
Cash and cash equivalents	18	23,016	166	166	(166)	(166)
Bank borrowings	29	(50,000)	(360)	(360)	360	360
Fixed rate senior bond	29	(99,129)	571	571	(601)	(601)
Derivative financial instruments						
Interest rate swaps - cash flow hedges	22	(2,820)	360	(141)	(360)	(3,499)
Interest rate swaps - fair value hedges	22	354	(571)	(571)	601	601
		(128,579)	166	(335)	(166)	(3,305)
At 1 August 2010						
Cash and cash equivalents	18	101,226	709	709	(709)	(709)
Bank borrowings	29	(75,000)	(525)	(525)	525	525
Fixed rate senior bond	29	(98,642)	452	452	(490)	(490)
Derivative financial instruments						
Interest rate swaps - cash flow hedges	22	(3,210)	490	1,400	(490)	(1,430)
Interest rate swaps - fair value hedges	22	179	(452)	(452)	490	490
		(75,447)	674	1,584	(674)	(1,614)

The parent has no exposure to interest rate risk, with the exception of its cash on hand at balance date.

(ii) Foreign exchange risk

The Group is exposed to foreign exchange risk arising from currency exposures, primarily with respect to the US dollar, through the purchases of inventory directly from overseas suppliers. The Group uses forward foreign exchange contracts to reduce the currency risks associated with these purchases.

Management work to a board approved Treasury Policy to manage foreign exchange risk. The policy parameters for hedging forecasted 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 the approval of the Group's Chief Executive Officer.

Notes to and forming part of the Financial Statements - Continued

For the 52 week period ended 31 July 2011

4. FINANCIAL RISK MANAGEMENT (continued)

At balance date the Group had the following foreign currency risk exposures.

Group Asset / (Liability)	Note	Carrying Amount		Notional Amount	
		2011	2010	2011	2010
Forward currency contracts - cash flow hedges		\$ 000	\$ 000	NZ\$ 000	NZ\$ 000
Buy US dollars / Sell New Zealand dollars	22	(30,867)	(2,757)	252,382	175,812

The average exchange rate of US dollar forward contracts at balance date were \$0.7558 (2010: \$0.7066). The spot rate used to determine the mark-to-market carrying value of the US dollar forward contracts at balance date was \$0.8792 (2010: \$0.7260).

Throughout the year the Group's US dollar hedge cover levels typically range between 55% to 70% of the forecast annual direct US dollar exposure. At balance date the Group has US dollar hedges in place to cover 73.0% (2010: 67.1%) of the forecast annual direct US dollar exposure. As a result of the US dollar exchange rate trading at historically high levels during the current year the Group has taken the unusual step of placing additional cover extending beyond 12 months. The additional cover represents 48.0% of the forecast 13 to 18 month direct US dollar exposure.

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

Group Forward currency contracts - cash flow hedges	After tax profit		Equity	
	Higher/(Lower)		Higher/(Lower)	
	2011	2010	2011	2010
	\$ 000	\$ 000	\$ 000	\$ 000
10% appreciation in the New Zealand dollar	-	-	(14,162)	(10,862)
10% depreciation in the New Zealand dollar	-	-	17,309	13,276

There is no profit and loss sensitivity, as the forward currency contracts have been designated as cash flow hedges and assumes they will be 100% hedge effective. The parent company has no currency risk exposures.

(iii) Price risk

Management work to a Board approved Treasury Policy to manage electricity commodity price risk. The Group manages its exposure to electricity price fluctuations by negotiating fixed price supply contracts with its electricity suppliers and using electricity pricing contracts (contracts for difference) to provide an economic hedge. The policy parameters for hedging forecast electricity price exposures are:

- to hedge 60% to 100% of forecast electricity usage in the next 0 to 12 months
- to hedge 0% to 75% of forecast electricity usage in the next 13 to 24 months
- to hedge 0% to 50% of forecast electricity usage in the next 25 to 60 months

At balance date the Group had the following electricity price risk exposures.

Group Asset / (Liability)	Carrying Amount		Average price per MWH		Notional Amount (MWH)	
	2011	2010	2011	2010	2011	2010
	\$ 000	\$ 000	\$	\$		
Electricity pricing contracts - economic hedges	-	(194)	-	82.64	-	14,688

These contracts were fair valued by comparing the contract rate to the market rate for contracts with matching maturity periods.

The Group's "contracts for difference" did not qualify for hedge accounting and all movements in fair value have been recognised as an expense/revenue on the face of the income statement in the period they occurred. To reduce fair value earnings volatility the Group has not entered any new "contracts for difference" since 2008 and has now fully unwound all pre-existing "contracts for difference" preferring to use fixed price supply contracts to hedge the Group's electricity price exposure.

The parent has no direct exposure to commodity price risk.

Notes to and forming part of the Financial Statements - Continued

For the 52 week period ended 31 July 2011

4. FINANCIAL RISK MANAGEMENT (continued)

(c) 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, electricity derivatives and transactions with financial institutions.

	Note	Group 2011 \$ 000	Group 2010 \$ 000	Parent 2011 \$ 000	Parent 2010 \$ 000
Maximum exposures to credit risk at balance date are:					
Cash and cash equivalents	18	23,016	101,226	2,526	2,530
Trade and other receivables	21	25,791	19,020	-	-
Derivative financial instruments	22	1,138	873	-	-
Intercompany advances		-	-	316,508	316,149
Investment in associate company	27	7,585	5,921	-	-
		57,530	127,040	319,034	318,679

The Group places cash and short-term investments with high credit quality financial institutions. The board reviews bank counter-parties and investment limits on an annual basis. The 2011 annual review included an external review of bank counter-party risk, which lead to changes in the mechanism for determining investment limits based on bank credit ratings being proposed by management which were then approved by the board. The Group's treasury policy specifies maximum credit limits for each bank counter-party and requires bank counter-parties to have a Standard & Poor's credit rating of at least A+ (2010: AA-).

The Group performs credit evaluations on customers requiring credit, but generally does not require collateral. In addition, receivable balances are monitored on an ongoing basis to ensure the Group's bad debt exposure is not significant. Loans to team members to purchase shares in accordance with the Group's share purchase plan are effectively secured as team members are not given the shares until the advances are fully repaid. Concentrations of credit risk, with respect to trade and other receivables, are limited due to the minor nature and spread of such accounts.

The Group enters into foreign exchange derivatives, interest-rate derivatives and electricity derivatives within specified policy limits and only with counter-parties approved by directors. There are no significant concentrations of credit risk within the Group and financial instruments are spread amongst a number of financial institutions and electricity providers to minimise the risk of a counter party default.

The Group's associate company, The Warehouse Financial Services Limited, offers consumer credit to customers, who potentially expose the Group to an indirect credit risk. Customers who request consumer credit finance are subject to credit verification procedures in accordance with Westpac Banking Corporation standards. The amount of capital invested by both the Group and its associate partner, and the level of bad debt provisions maintained, are also determined in accordance with Westpac Banking Corporation standards. The directors are satisfied that these standards are appropriate for the nature and performance of the business.

(d) Fair values

Except for the fixed rate senior bond (refer note 29), the carrying value of all balance sheet financial instruments approximate their fair value.

- Derivatives are carried at fair value (refer note 1 (p))
- Receivables and payables are short term in nature and therefore approximate to fair value
- Interest bearing bank borrowings and deposits reprice between every 1 to 90 days and therefore approximate to fair value

The methods used to calculate fair value are as follows:

Derivatives

The Group's derivatives are over the counter derivatives and are classified as tier 2 financial instruments under NZIFRS 7, meaning that the fair value is calculated using present value or other valuation techniques based on observable market rates.

Fixed rate senior bond

The fair value of the fixed rate senior bond is determined by reference to the quoted market price of debt securities quoted on the New Zealand stock exchange at balance date (refer note 29).

(e) Derivatives at fair value through the Income Statement

Electricity pricing contracts - economic hedges		Group 2011 \$ 000	Group 2010 \$ 000
Asset / (Liability)	Note		
Opening balance		(194)	88
Changes in fair value of financial instruments recognised in the Income Statement		194	(282)
Closing balance	22	-	(194)

Notes to and forming part of the Financial Statements - Continued

For the 52 week period ended 31 July 2011

5. SEGMENT INFORMATION

Group	Revenue		Operating profit	
	2011	2010	2011	2010
	\$ 000	\$ 000	\$ 000	\$ 000
The Warehouse	1,462,912	1,476,219	98,777	112,664
Warehouse Stationery	201,453	193,599	10,103	8,044
Other group operations	8,320	8,107	5,256	3,341
Inter-segment eliminations	(4,908)	(5,230)	-	-
	1,667,777	1,672,695	114,136	124,049
Unallocated (expenses) / revenue				
Gain on disposal of property			1,470	-
Changes in fair value of financial instruments			194	(282)
Equity earnings of associate			3,575	2,808
Earnings before interest and tax			119,375	126,575
Net interest expense			(9,845)	(7,409)
Income tax expense			(31,385)	(58,626)
Net profit for the period			78,145	60,540
Operating margin				
The Warehouse			6.8 %	7.6 %
Warehouse Stationery			5.0 %	4.2 %
Total Group			6.8 %	7.4 %

The operating margin is calculated by dividing operating profit by revenue.

(a) Operating segments

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

The Warehouse

The Warehouse is predominantly a general merchandise and apparel retailer, with 88 (2010: 87) stores located throughout New Zealand.

Warehouse Stationery

Warehouse Stationery is a stationery retailer, with 51 (2010: 47) stores located throughout New Zealand.

Other Group operations

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

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

(b) Other segment information

Group	Note	Depreciation & amortisation		Capital expenditure	
		2011	2010	2011	2010
		\$ 000	\$ 000	\$ 000	\$ 000
The Warehouse		32,041	33,307	37,319	22,905
Warehouse Stationery		4,902	4,608	6,161	4,310
Other group operations		2,829	3,022	24,109	28,454
		39,772	40,937	67,589	55,669
Comprising					
Property, plant and equipment	25	31,719	33,080	61,964	49,534
Computer software	26	8,053	7,857	5,625	6,135
		39,772	40,937	67,589	55,669

Asset impairment provisions for The Warehouse of \$0.044 million (2010: \$Nil) and Warehouse Stationery of \$0.069 million (2010: \$Nil) were recognised for damaged store fixtures and fittings sustained during the Christchurch earthquakes (refer note 25). These assets are fully insured for replacement value.

Notes to and forming part of the Financial Statements - Continued

For the 52 week period ended 31 July 2011

5. SEGMENT INFORMATION (continued)

(c) Balance sheet segment information

Group	Total assets		Total liabilities	
	2011	2010	2011	2010
	\$ 000	\$ 000	\$ 000	\$ 000
The Warehouse	340,777	326,639	139,639	137,178
Warehouse Stationery	59,379	52,861	24,688	23,509
Other group operations	204,396	187,512	6,099	6,241
Operating assets / liabilities	604,552	567,012	170,426	166,928
Unallocated assets / liabilities				
Cash and borrowings	23,016	101,226	149,129	173,642
Derivative financial instruments	1,138	873	34,471	6,855
Taxation assets/liabilities	3,832	-	7,202	16,947
Investments	7,585	5,921	-	-
Warranty provision	-	-	7,355	7,414
Total	640,123	675,032	368,583	371,786

Segment assets and liabilities are disclosed net of inter-company balances.

6. OTHER INCOME

	Note	Group 2011	Group 2010
		\$ 000	\$ 000
Tenancy rents received		3,075	3,071
Business interruption insurance	12	275	-
Other		3,135	3,913
		6,485	6,984

During the year the parent received dividends from subsidiaries of \$90.246 million (2010: \$101.139 million).

7. EMPLOYEE EXPENSE

	Note	Group 2011	Group 2010
		\$ 000	\$ 000
Wages and salaries		260,909	252,189
Director's fees	14	609	559
Performance incentive payments		4,298	10,958
Cash settled share based payments expense	15	-	1,684
Equity settled share based payments expense	31	1,640	2,609
Movement in long service and sick leave provisions		343	666
		267,799	268,665

The parent has no direct employees.

8. LEASE AND OCCUPANCY EXPENSE

	Group 2011	Group 2010
	\$ 000	\$ 000
Operating lease costs	59,999	58,664
Other occupancy costs	21,943	19,666
	81,942	78,330

The parent has no lease or occupancy expenses.

Notes to and forming part of the Financial Statements - Continued

For the 52 week period ended 31 July 2011

9. DEPRECIATION AND AMORTISATION EXPENSE

	Note	Group 2011 \$ '000	Group 2010 \$ '000
Freehold buildings		2,618	2,838
Store fittings and equipment		22,250	23,829
Computer hardware		6,485	6,017
Vehicles		366	396
Property, plant and equipment	25	31,719	33,080
Computer software	26	8,053	7,857
Depreciation and amortisation expense		39,772	40,937

The parent has no depreciable assets.

10. OTHER OPERATING EXPENSES

	Note	Group 2011 \$ '000	Group 2010 \$ '000
Other operating expenses include			
Bad debts written off	21	321	389
Provision for doubtful debts	21	(61)	(146)
Loss on sale of plant and equipment		1,008	1,623
Donations - Canterbury earthquakes		500	-
Donations - other		224	121
Net foreign currency exchange loss		12	80
Auditors' fees			
Auditing the Group financial statements		314	307
Reviewing the half year financial statements		72	72
Other audit services		30	33
Total fees paid to PricewaterhouseCoopers		416	412
Total internal audit fees paid to Ernst & Young		461	528

Fees paid to PricewaterhouseCoopers for other audit services are approved by the Group's Audit Committee and relate to agreed upon additional audit assurance procedures. In 2011 other audit services related to limited assurance services provided on aspects of the Group's annual Sustainability Report. In 2010 other audit services related to issuance of the Group's fixed rate senior bond. For information on the Group's policies regarding audit governance and independence refer to page 73 (Corporate Governance).

11. NET INTEREST EXPENSE

	Note	Group 2011 \$ '000	Group 2010 \$ '000
Interest on bank overdrafts		32	135
Interest on bank borrowings		2,146	3,568
Interest on fixed rate senior bond		7,682	2,269
Fair value interest rate swaps		(128)	(17)
Ineffective interest rate swap cash flow hedges expensed	22	-	206
Interest rate swap cash flow hedges transfer from equity	22	1,987	2,870
Interest expense		11,719	9,031
Interest received on bank deposits		1,734	1,090
Use of money interest		16	510
Discount on employee share plan loans		124	22
Interest income		1,874	1,622
Net interest expense		9,845	7,409

The parent received intercompany interest of \$7.682 million (2010: \$2.269) fully offsetting interest of the same amount payable in respect of the fixed rate senior bond.

Notes to and forming part of the Financial Statements - Continued

For the 52 week period ended 31 July 2011

12. CANTERBURY EARTHQUAKES

As a result of the September 2010 and February 2011 Canterbury earthquakes the Group sustained property damage and increased operating costs to clean up stores and the Rolleston Distribution Centre to enable the resumption of normal trading activities. At balance date two stores remain unable to trade due to damage caused by the February 2011 earthquake and a third store had been closed for 5 months (which reopened in July 2011), all other impacted stores and the Distribution Centre largely returned to normal trading within two weeks of the earthquakes.

The Group has material damage and business interruption insurance policies to compensate the Group for financial loss as a result of the earthquakes and has lodged insurance claims with its insurers for these events. The Group has recognised a \$0.250 million expense for the insurance deductible applied to the insurance compensation. Net of the insurance deductible the Group incurred property damage and clean up costs of \$4.892 million which are fully recoverable from the Group's insurers. The Group has also received business interruption insurance proceeds of \$0.275 million.

13. INCOME TAX

Numerical reconciliation between the tax expense recognised in the income statement and tax expense calculated per the statutory income tax rate.

	Note	Group 2011 \$ '000	Group 2010 \$ '000	Parent 2011 \$ '000	Parent 2010 \$ '000
Profit before tax		109,530	119,166	90,243	101,136
Taxation calculated at 30%		32,859	35,750	27,073	30,341
Adjusted for the tax effect of:					
Non taxable dividends		-	-	(27,074)	(30,342)
Entertainment		269	259	-	-
Equity earnings of associate		(1,001)	(842)	-	-
Other non deductible expenditure		140	570	-	-
Income tax over provided in prior year		(245)	(147)	-	-
Income tax expense before Government Budget changes		32,022	35,590	(1)	(1)
Depreciation on buildings purchased before May 2010		(1,540)	22,814	-	-
Change in corporate tax rate		903	222	-	-
Income tax expense relating to Government Budget changes		(637)	23,036	-	-
Total income tax expense		31,385	58,626	(1)	(1)
Effective tax rate before Government Budget changes		29.2%	29.9%		
Effective tax rate after Government Budget changes		28.7%	49.2%		
Income tax expense comprises:					
Current year income tax payable	23	33,125	35,389	(1)	(1)
Deferred taxation	24	(1,740)	23,237	-	-
		31,385	58,626	(1)	(1)

The accounting impact of the 2010 Government Budget changes

In May 2010 the Government announced a number of changes to the tax legislation in its annual budget. These changes included the reduction of the corporate income tax rate from 30% to 28%, and the removal of the ability to depreciate buildings for tax purposes. Both of these changes in tax legislation are effective for the Group from August 2011.

In respect of the reduction in the corporate income tax rate, deferred tax on temporary differences expected to reverse after August 2011 have been remeasured using the effective tax rate of 28%. This has resulted in a decrease in deferred tax assets, which is recognised as a tax expense in the income statement to the extent that it relates to items not previously charged or credited to equity.

The removal of the ability to depreciate buildings for tax purposes reduced the tax base of the Group's buildings acquired before May 2010, as future tax depreciation deductions are not available. This meant the Group recognised a non-cash deferred tax liability on these buildings in 2010.

During 2011 the Group sold two buildings and reclassified another building to "available for sale" (refer note 25). These three buildings were acquired before May 2010 and a non-cash deferred tax liability of \$1.540 million was recognised in respect of these buildings as a component of the \$22.814 million expense recorded in 2010. The sale and reclassification of the three buildings has resulted in the reversal of the 2010 non-cash deferred tax liabilities attributed to the three buildings.

Notes to and forming part of the Financial Statements - Continued

For the 52 week period ended 31 July 2011

14. KEY MANAGEMENT PERSONNEL

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

Group	Note	Directors fees	
		2011	2010
Non-executive directors		\$ 000	\$ 000
G F Evans (Chairman)		98	82
J R Avery (retired November 2009)		-	28
H J M Callaghan (appointed September 2010 - resigned July 2011)		64	-
R L Challinor		77	79
J H Ogden		76	73
J L Smith		73	72
K R Smith (Deputy Chairman)		143	153
Sir Stephen Tindall		72	72
E K van Arkel (appointed July 2011)		6	-
	7	609	559

In May 2011 the composition of the board changed when K R Smith stepped down as Chairman and was succeeded by G F Evans. I R Morrice also resigned from his position as an Executive Director in May 2011 but remains a member of the senior executive until November 2011, when it is anticipated he will conclude his employment with the Group. The remuneration detailed in the below table for I R Morrice is for the full year and includes remuneration paid during the period when he was not a director. M D Powell succeeded I R Morrice as Group Chief Executive Officer. The remuneration for M D Powell forms part of Key Executive remuneration detailed in the below table.

Group	Key executives		I R Morrice	
	2011	2010	2011	2010
	\$ 000	\$ 000	\$ 000	\$ 000
Base Salary	3,425	3,324	1,748	1,537
Annual performance based compensation	308	868	-	316
Cash settled share-based entitlement	-	670	-	438
Equity settled share-based compensation	431	634	247	553
Termination benefits	1,195	-	-	-
	5,359	5,496	1,995	2,844

The total compensation package of key executives and I R Morrice during his term as an executive director comprise both fixed and performance linked compensation. The weighting between fixed and performance linked compensation is set out below.

Group		Key executives	Executive director
Remuneration structure based on 'on target' performance		%	%
Fixed compensation	Base Salary	50	46
Performance linked compensation	Annual performance based compensation	25	27
	Share-based compensation	25	27

There have been no changes to the weightings between fixed and performance linked compensation for determining executive compensation during the current and previous financial years.

The annual performance based compensation is an estimate of compensation, which will be paid to executives when performance against specified individual and company performance objectives have been evaluated following the end of the financial year. No annual performance compensation is payable to Executives in 2011 except to the extent that the compensation related to the performance of Warehouse Stationery.

Equity settled share-based compensation disclosed in the above table represents the fair value of share rights measured at grant date and recorded as an expense during the year.

Notes to and forming part of the Financial Statements - Continued

For the 52 week period ended 31 July 2011

14. KEY MANAGEMENT PERSONNEL (continued)

Key executives and the Group's former Managing Director held the following share rights at balance date (refer note 15 for plan details).

Group	Performance shares		Award shares		Total share rights	
Expected vesting dates	2011	2010	2011	2010	2011	2010
Key executives	000	000	000	000	000	000
October 2010	-	121	-	123	-	244
November 2010	-	-	-	73	-	73
October 2011	-	-	168	92	168	92
November 2011	142	196	46	73	188	269
October 2012	198	197	168	92	366	289
October 2013	234	-	109	-	343	-
Outstanding at the end of the year	574	514	491	453	1,065	967
I R Morrice						
October 2010	-	79	-	74	-	153
November 2010	-	-	-	48	-	48
October 2011	-	-	93	52	93	52
November 2011	126	126	48	48	174	174
October 2012	-	111	-	52	-	163
Outstanding at the end of the year	126	316	141	274	267	590

Ten new executives were appointed to the Group's leadership team in May 2011 who collectively held 285,000 performance shares and 241,000 award shares. During the year the remaining key executives were collectively granted 177,000 (2010: 197,000) performance shares and 247,000 (2010: 276,000) award shares; 518,000 (2010: 136,000) share rights were forfeited and 141,000 (2010: 132,000) share rights vested.

During the year I R Morrice was granted 123,000 (2010: 111,000) performance shares and 171,000 (2010: 156,000) award shares; 512,000 (2010: 95,000) share rights were forfeited and 105,000 (2010: 90,000) share rights vested.

Details of other key executives

M D Powell (Group Chief Executive Officer - effective May 2011 - formerly Chief Executive Officer - Warehouse Stationery)
L N E Bunt (Chief Financial Officer)
T M Benyon (Chief Operating Officer - Warehouse Stationery - effective from May 2011)
A D Buxton (General Manager Business Support - effective from May 2011)
A K Campbell (General Manager People Support SSO - effective from May 2011)
D C Flynn (General Manager Customer Channels - effective from May 2011)
A G Greene (General Manager Logistics - effective from May 2011)
P S Judd (General Manager Finance Support - effective from May 2011)
A Kenworthy (General Manager Head to Toe - effective from May 2011)
P Okhovat (General Manager Operations - effective from May 2011)
J Ryan (General Manager Marketing - effective from May 2011)
N J Tuck (General Manager General Merchandise - effective from May 2011)
P T Walsh (General Manager People Support - Stores and Community)
R Lewis (Chief Operating Officer - resigned May 2011)
O S McCall (Chief Information Officer - resigned May 2011)
M N Otten (Finance Director - Executive member until July 2010)
S J Yorston (Marketing Director - Executive member until July 2010)

Key executives and directors are also entitled to purchase goods at normal staff discount rates. For further details regarding the nature of compensation provided to key executives refer to page 72 (Corporate Governance).

Notes to and forming part of the Financial Statements - Continued

For the 52 week period ended 31 July 2011

15. EXECUTIVE LONG TERM INCENTIVE PLAN (LTIP)

Share rights are granted to senior executives, who are selected by the Group's Remuneration Committee and elect to participate in the Group's LTIP. The plan is designed to align participants interests with those of shareholders by providing participants with an incentive for delivering results and growing the value of the Group, as measured by the Group's annual performance and share price performance. At balance date the plan had 40 (2010: 43) participants.

The plan is divided into medium term (Award shares) and long term (Performance shares) share plans.

(a) Award Shares

Award shares provide participants with a conditional right to be allocated and transferred ordinary shares upon the satisfaction of certain company performance targets and individual performance targets, measured during the initial vesting period. The number of ordinary shares which are allocated is determined by reference to the percentage achievement of these targets, with one third of the allocated shares being transferred to the executive member at the end of the initial vesting period if minimum threshold performance targets have been achieved. The executive member is transferred a further third of the allocated shares at the end of each of the next two vesting dates, providing the executive member has maintained continuous employment with the Group.

(b) Performance Shares

Performance shares provide participants with a conditional right to be allocated and transferred ordinary shares at the end of the vesting period if the Group's share price exceeds a specified target price on the vesting date.

The target price for the plan is calculated using the weighted average market price of the Group's share price over the ten share trading days prior to grant date, increased by the Group's estimated cost of equity (after adjusting for dividends) between the grant date and the exercise date. The estimated cost of equity is independently determined by external advisors and the target price approved by the Remuneration Committee prior to granting the share rights.

The target prices for the performance shares vesting in November 2011, October 2012 and October 2013 are \$4.19, \$4.56 and \$4.13 respectively.

(c) Summary of share rights granted under LTIP arrangements

Group	Note	Performance shares		Award shares		Total share rights	
		2011	2010	2011	2010	2011	2010
		000	000	000	000	000	000
Outstanding at the beginning of the year		1,508	1,155	1,335	1,074	2,843	2,229
Granted during the year		686	608	960	851	1,646	1,459
Vested during the year	30	-	-	(440)	(365)	(440)	(365)
Forfeited during the year		(912)	(255)	(788)	(225)	(1,700)	(480)
Outstanding at the end of the year		1,282	1,508	1,067	1,335	2,349	2,843
Expected vesting dates							
October 2010		-	343	-	365	-	708
November 2010		-	-	-	201	-	201
October 2011		-	-	393	284	393	284
November 2011		448	557	154	201	602	758
October 2012		386	608	301	284	687	892
October 2013		448	-	219	-	667	-
Outstanding at the end of the year		1,282	1,508	1,067	1,335	2,349	2,843

Award shares granted during the year represent the maximum number of conditional rights that can be granted to each participant. The final allocation of these share rights is determined after balance date once the achievement of individual and company performance targets have been evaluated and the final allotment approved by the Group's Remuneration Committee. The adjustment to the initial number of share rights granted is included in the number of share rights forfeited in the table above.

When a participant ceases employment prior to the vesting of their share rights, the share rights are forfeited unless there are extenuating circumstances which may cause the Remuneration Committee to approve the early vesting of the share rights. In the event of a change in control the Remuneration Committee has the discretion to bring forward the vesting date of the share rights.

Notes to and forming part of the Financial Statements - Continued

For the 52 week period ended 31 July 2011

15. EXECUTIVE LONG TERM INCENTIVE PLAN (continued)

(d) Fair values

The fair value of performance shares at grant date has been independently estimated and represents an average of the two valuations produced from using the Binomial Options Pricing Model and a Monte Carlo simulation. The value of award shares has been calculated as the present value of the rights at grant date discounted using the Group's estimated cost of capital and allowing for expected future dividends.

The following table lists the key inputs used in the various pricing models.

Performance shares

Date granted	October 2010	October 2009	November 2008
Vesting date	October 2013	October 2012	November 2011
Risk free interest rate (%)	4.18	5.33	5.68
Average expected volatility (%)	25.00	27.50	30.00
Average share price at measurement date (\$)	3.81	4.09	3.61
Estimated fair value at grant date (\$)	1.30	1.61	1.37

Award shares

Date granted	October 2010	October 2009	November 2008
First vesting date (then annually on the next two anniversaries)	October 2011	October 2010	November 2009
Weighted average cost of capital (%)	9.60	9.80	10.90
Average share price at measurement date (\$)	3.81	4.09	3.61
Average estimated fair values at grant date (\$)	3.34	3.62	3.25

(e) Cash settled share-based compensation plan

In 2009 the Group introduced a cash settled share-based compensation plan for holders of 'performance shares' granted in November 2007. The new plan effectively reset the target price for the original plan to make allowance for the elevated target price set during a period when the Group's share price included a 'take over premium' due to external market speculation.

This plan ceased in October 2010 when the revised target share price hurdle of \$3.85 was met triggering the payment of compensation to participants (\$1.684 million). A full provision for the settlement of the plan was recognised in 2010 (refer note 28).

Notes to and forming part of the Financial Statements - Continued

For the 52 week period ended 31 July 2011

16. EARNINGS PER SHARE

(a) Basic earnings per share

Basic earnings per share is calculated by dividing Group net profit attributable to shareholders by the weighted average number of ordinary shares outstanding during the year.

Group	2011	2010
Profit attributable to shareholders of the parent (\$000s)	77,829	60,185
Basic		
Weighted average number of ordinary shares on issue (000s)	311,196	311,196
Adjustment for treasury stock (000s)	(1,591)	(2,709)
Weighted average number of ordinary shares outstanding (000s)	309,605	308,487
Basic earnings per share (cents)	25.1	19.5

(b) Diluted earnings per share

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Group has two types of dilutive potential ordinary share (performance share rights and award share rights - refer note 15).

Share rights

To calculate the weighted average effect of *performance* share right dilution it is assumed that the share rights have vested if the average market price of ordinary shares exceeds the target price vesting criteria.

To calculate the weighted average effect of *award* share right dilution it is again assumed that the share rights have vested but an adjustment is made for the number of rights which are expected to be forfeited based on the percentage achievement of individual and company vesting performance hurdles.

Group	2011	2010
Profit attributable to shareholders of the parent (\$000s)	77,829	60,185
Diluted		
Weighted average number of ordinary shares outstanding (000s)	309,605	308,487
Shares deemed to be issued for no consideration in respect of share rights (000s)	1,394	1,385
Weighted average number of ordinary shares for diluted earnings per share (000s)	310,999	309,872
Diluted earnings per share (cents)	25.0	19.4

17. NET ASSETS PER SHARE

Net asset backing per share is calculated by dividing Group net assets by the number of ordinary shares outstanding at balance date.

Group	Note	2011	2010
Net assets (\$000s)		271,540	303,246
Basic			
Number of ordinary shares on issue (000s)	30	311,196	311,196
Adjustment for treasury stock (000s)	30	(1,719)	(1,797)
Number of ordinary shares outstanding (000s)		309,477	309,399
Net assets per share (cents)		87.7	98.0

Notes to and forming part of the Financial Statements - Continued

For the 52 week period ended 31 July 2011.

18. CASH AND CASH EQUIVALENTS

	Group 2011 \$ '000	Group 2010 \$ '000	Parent 2011 \$ '000	Parent 2010 \$ '000
Cash on hand and at bank	16,916	16,786	2,526	2,530
Deposits at call - interest rate: 2.50% (2010: 3.15%)	6,100	84,440	-	-
	23,016	101,226	2,526	2,530

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

19. INVENTORIES

Group	2011 \$ '000	2010 \$ '000
Finished goods	243,395	231,143
Inventory adjustments	(9,725)	(9,453)
Retail stock	233,670	221,690
Goods in transit from overseas	28,993	32,916
	262,663	254,606

Inventory adjustments for stock obsolescence are provided at balance date and the movement in the adjustments recognised within cost of sales in the Income Statement.

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.

The parent has no inventories.

20. TRADE AND OTHER PAYABLES

Group	2011 \$ '000	2010 \$ '000
Trade creditors	98,053	89,173
Goods in transit creditors	12,130	12,918
Unearned income (includes laybys, gift vouchers and Christmas club deposits)	8,457	7,743
Interest accruals	1,349	1,539
Payroll accruals	8,924	8,683
	128,913	120,056

Trade payables are normally unsecured and non-interest bearing and are usually settled within 60 days of recognition. Due to the short term nature of these payables, their carrying value is assumed to approximate their fair value. With the exception of an accrual for \$0.949 million (2010: \$0.949 million) relating to interest payable on the fixed rate senior bond the parent has no other payables.

Notes to and forming part of the Financial Statements - Continued

For the 52 week period ended 31 July 2011.

21. TRADE AND OTHER RECEIVABLES

Group	2011	2010
	\$ 000	\$ 000
Trade receivables	14,336	11,056
Allowance for impairment	(681)	(742)
	13,655	10,314
Other debtors and prepayments	10,160	6,069
Employee share purchase plan loans	1,976	2,637
	25,791	19,020
Less: Non-current employee share purchase plan loans	(1,413)	(2,091)
Current trade and other receivables	24,378	16,929

Other debtors includes an insurance receivable of \$3.302 million (2010: \$ Nil) for insured losses sustained in the Canterbury earthquakes (refer note 12).

(a) Trade receivables

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. Due to the short term nature of trade and other receivables, their carrying value is assumed to approximate their fair value. Collateral is not held as security, nor is it the Group's practice to transfer (on-sell) receivables to special purpose entities.

An ageing analysis of trade receivables at balance date is set out below:

Group	Total	0 to 30 days	31 to 60 days	61 to 90 days	> 90 days
	\$ 000	\$ 000	\$ 000	\$ 000	\$ 000
At 31 July 2011					
Trade receivables	14,336	10,457	2,278	643	958
Allowance for impairment	(681)	(11)	(7)	(95)	(568)
	13,655	10,446	2,271	548	390
At 1 August 2010					
Trade receivables	11,056	8,198	1,680	613	565
Allowance for impairment	(742)	(32)	(70)	(152)	(488)
	10,314	8,166	1,610	461	77

Trade receivables greater than 60 days are considered to be past their due date. Collectability of trade receivables is reviewed on an ongoing basis at an operating unit level. Individual debts that are known to be uncollectible are written off when they are identified. An impairment provision is recognised when there is objective evidence that the Group will not be able to collect the receivable.

Financial difficulties of the debtor or debts more than 60 days overdue are considered objective evidence of possible impairment. The amount of the provision represents the difference between the asset's carrying amount and the estimated recoverable amount.

Movements in the provision for impairment loss were as follows:

Group	2011	2010
	\$ 000	\$ 000
Opening balance	742	888
Charge to the income statement	260	243
Trade receivables written off	(321)	(389)
Closing balance	681	742

Notes to and forming part of the Financial Statements - Continued

For the 52 week period ended 31 July 2011

21. TRADE AND OTHER RECEIVABLES (continued)

(b) Employee share purchase plan

Group	Note	Ordinary Shares	
		2011	2010
		000	000
Opening balance		1,003	5
Shares allocated	30	-	1,003
Shares redeemed		(12)	(2)
Shares forfeited	30	(62)	(3)
Closing balance		929	1,003

In May 2010 the Group re-introduced an employee share purchase plan. Shares were offered to all team members of The Warehouse Limited and Warehouse Stationery Limited who had been employed for more than 3 months prior to the offer and work more than 15 hours per week. The offer (\$3.06) was priced at a 20% discount to the market share price on terms permitted by share purchase plan and in accordance with section DC13 and 14 of the Income Tax Act 2007 (maximum consideration is set at \$2,340 per team member). The share purchase plan has been approved by the Inland Revenue in accordance with section DC12 of the Income Tax Act 2007.

Team members accepting the share offer are provided financial assistance on an interest free basis, payable over five years in regular instalments. The qualifying period between grant date and vesting date is a minimum of three years to a maximum of five years. The vesting period for the current plan commences from May 2013 through to May 2015.

Shares are allocated to team members from treasury stock, on condition that should the participant leave the group before the vesting date, their shares will be repurchased by the Trustee at the lesser of the market price and the price at which the shares were originally allocated to the employee, subject to repayment of the original loan.

The Warehouse Management Trustee Company acts as trustee for the share purchase plan. Any repurchased shares are held by the Trustee for any future allocations under the employee share purchase plan. Dividends paid on the allocated shares during the qualifying period are paid to team members. Voting rights on the shares are exercisable by the trustee. Trustees for the plan are appointed by the Group (the current trustees are detailed in note 39).

At balance date the Trustees of the share purchase plan and LTIP (refer note 15) held the following shares:

Group	Note	Ordinary Shares	
		2011	2010
		000	000
Allocated to employee share purchase plan		929	1,003
Unallocated treasury stock	30	1,719	1,797
Total ordinary shares held by the Group's Trustees		2,648	2,800
Percentage of share capital		0.85 %	0.90 %

The fair value of shares allocated to participants of the plan in May 2010 (\$2.69 per share) represents the discount on the share issue less the fair value of the interest free component of the loan provided to the employee. The difference between the fair value and the share price at grant date (\$3.83) has been amortised over the expected vesting period and recognised as an employee benefit expense of \$0.381 million (2010: \$0.064 million) during the year.

The parent has no trade or other receivables.

Notes to and forming part of the Financial Statements - Continued

For the 52 week period ended 31 July 2011

22. DERIVATIVE FINANCIAL INSTRUMENTS

Group	Currency contracts	Interest rate swaps	Electricity contracts	Total derivatives
Asset / (Liability)	\$ 000	\$ 000	\$ 000	\$ 000
At 31 July 2011				
Non-current assets	-	1,138	-	1,138
Current liabilities	(25,024)	(879)	-	(25,903)
Non-current liabilities	(5,843)	(2,725)	-	(8,568)
	(30,867)	(2,466)	-	(33,333)
At 1 August 2010				
Current assets	167	-	-	167
Non-current assets	-	706	-	706
Current liabilities	(2,924)	(468)	(194)	(3,586)
Non-current liabilities	-	(3,269)	-	(3,269)
	(2,757)	(3,031)	(194)	(5,982)

Derivative financial instruments are used by the Group to hedge financial risks (refer note 4). The fair value of a derivative financial instrument is classified as a non-current asset or liability if the maturity of the derivative is more than 12 months and, as a current asset or liability, if the maturity is less than 12 months.

(a) Forward currency contracts – cash flow hedges

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 has entered into forward currency contracts to purchase foreign currencies. These contracts are hedging highly probable forecasted purchases timed to mature when the payments are scheduled to be made. The cash flows are expected to occur during the next 18 months and the gain/loss within cost of sales will be affected over the following year as the inventory is sold.

At balance date the details of the outstanding contracts are:

Group	Notional amount		Average exchange rate	
Forward currency contracts - cash flow hedges	2011	2010	2011	2010
	NZ\$ 000	NZ\$ 000	\$	\$
Buy US dollars / Sell New Zealand dollars				
Maturity 0 to 6 months	117,451	122,981	0.7387	0.7084
Maturity 7 to 12 months	68,681	52,831	0.7717	0.7026
Maturity 13 to 18 months	66,250	-	0.7698	-

The forward currency contracts are considered to be highly effective as they are matched against forecast inventory purchases with any gain/loss on the contracts attributable to the hedged risk taken directly to equity. When inventory is purchased the amount recognised in equity is adjusted to the inventory account in the balance sheet.

(b) Interest rate swaps

Group	2011	2010
	\$ 000	\$ 000
Cash flow hedges	(2,820)	(3,210)
Fair value hedges	354	179
	(2,466)	(3,031)

(i) Interest rate swaps – cash flow hedges

The Group's core bank borrowings bear an interest rate priced 0.70% (2010: 0.40%) above the bank bill mid rate (BKBM). In order to protect against rising interest rates the Group has entered interest rate swap contracts which it has a right to receive interest at variable rates and to pay interest at fixed rates.

At balance date the notional principal amounts and expiry of the interest rate swap contracts are as follows:

Group	Notional amount		Average fixed rate	
Interest rate swaps - cash flow hedges	2011	2010	2011	2010
Maturity	\$ 000	\$ 000	%	%
0-1 Years	20,000	20,000	4.92	6.60
1-2 Years	-	20,000	-	4.92
4-5 Years	-	30,000	-	6.70
5-6 Years	10,000	-	6.40	-
6-7 Years	20,000	-	6.12	-
	50,000	70,000	6.07	6.16

Notes to and forming part of the Financial Statements - Continued

For the 52 week period ended 31 July 2011

22. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

In the previous table, where the Group has entered into a second interest rate swap commencing from the end of an earlier maturing contract, the notional principal has been disclosed as if they were a single contract and the interest rate represents an average of the two contracts.

These interest rate swaps are settled on a net basis every ninety days matched to the same dates which interest is payable on bank borrowings. The interest rate swaps and bank borrowings re-price based on BKBM. All swaps are matched directly against an appropriate proportion of bank borrowings and interest expense, and as such, are considered highly effective. The interest rate swaps are measured at fair value and all gains and losses attributable to the hedged risk are taken directly to equity and reclassified to the income statement when the interest expense is recognised.

(ii) Interest rate swaps - fair value hedges

At balance date the Group held interest rate swaps where it receives a fixed rate of interest and pays a variable rate on a notional amount of \$40.000 million (2010: \$40.000 million). These interest rate swaps are designated as fair value hedges and transform a series of known future fixed interest cash flows on the fixed rate senior bond to variable interest cash flows, with effect from June 2013, so as to mitigate exposure to fair value changes in the fixed rate senior bond resulting from movements in interest rates. These interest rate swaps also spread the exposure to fixed rate repricing risk at the maturity of the Groups fixed rate senior bond.

Gains or losses on the derivatives and the change in fair value of the hedged risk on the fixed rate senior bond recognised in the income statement during the period were:

Group	2011	2010
	\$ '000	\$ '000
Gains / (losses) on fixed rate senior bond	(175)	(162)
Gains / (losses) on interest rate swaps	175	162

(c) Cash flow hedge reserve

Movements in the cash flow hedge reserve are set out below:

Group	Note	Currency contracts	Interest rate swaps	Deferred taxation	Hedge reserve
		\$ '000	\$ '000	\$ '000	\$ '000
For the 52 week period ended 31 July 2011					
Opening balance		(2,757)	(2,933)	1,683	(4,007)
Transferred to inventory		(16,346)	-	4,904	(11,442)
Transferred to interest expense	11	-	1,987	(596)	1,391
Transferred to equity		(11,764)	(1,663)	3,381	(10,046)
Closing balance		(30,867)	(2,609)	9,372	(24,104)
				(note: 24)	(note: 31)
For the 52 week period ended 1 August 2010					
Opening balance		(26,401)	(3,223)	8,887	(20,737)
Transferred to inventory		36,390	-	(10,917)	25,473
Hedge ineffectiveness recognised in the income statement		51	206	(77)	180
Transferred to interest expense	11	-	2,870	(861)	2,009
Transferred to equity		(12,797)	(2,786)	4,651	(10,932)
Closing balance		(2,757)	(2,933)	1,683	(4,007)
				(note: 24)	(note: 31)

The difference between the fair value of interest rate swaps at balance date and the gross amount recognised in the cash flow hedge reserve represents the amount of unsettled interest payable/receivable (which has been transferred to the interest expense).

Details of the electricity pricing contracts can be found in note 4. The parent does not have any derivative financial instruments.

Notes to and forming part of the Financial Statements - Continued

For the 52 week period ended 31 July 2011

23. CURRENT TAXATION

The movement in income tax receivable is set out below:

Asset / (Liability)	Note	Group 2011 \$ 000	Group 2010 \$ 000	Parent 2011 \$ 000	Parent 2010 \$ 000
Opening balance		(11,350)	557	1,079	741
Current year income tax payable	13	(33,125)	(35,389)	1	1
Net taxation paid		36,235	22,181	-	-
Supplementary dividend tax credit		1,033	1,078	1,033	1,078
Use of money interest and other adjustments		5	223	(1,079)	(741)
Closing balance		(7,202)	(11,350)	1,034	1,079

24. DEFERRED TAXATION

Movement in deferred income tax relates to the following temporary differences:

Group Asset / (Liability)	Note	Opening Balance \$ 000	Charged to profit \$ 000	Charged to equity \$ 000	Closing Balance \$ 000
For the 52 week period ended 31 July 2011					
Gross deferred tax assets					
Inventory		5,800	146	-	5,946
Doubtful debts		223	(32)	-	191
Employee benefit provisions		8,834	(46)	-	8,788
Make good provision		780	30	-	810
Sales return provision		746	(16)	-	730
Derivatives - cash flow hedges	22	1,683	-	7,689	9,372
Derivatives - economic hedges		58	(58)	-	-
Other		242	200	-	442
		18,366	224	7,689	26,279
Gross deferred tax liabilities					
Depreciation and amortisation		(23,872)	1,504	-	(22,368)
Other		(91)	12	-	(79)
		(23,963)	1,516	-	(22,447)
Net deferred tax assets / (liabilities)		(5,597)	1,740	7,689	3,832

(note: 13)

For the 52 week period ended 1 August 2010

Gross deferred tax assets

Inventory		6,472	(672)	-	5,800
Doubtful debts		267	(44)	-	223
Employee benefit provisions		8,533	301	-	8,834
Make good provision		811	(31)	-	780
Sales return provision		719	27	-	746
Derivatives - cash flow hedges	22	8,887	-	(7,204)	1,683
Derivatives - economic hedges		-	58	-	58
Other		311	(69)	-	242
		26,000	(430)	(7,204)	18,366
Gross deferred tax liabilities					
Depreciation and amortisation		(1,042)	(22,830)	-	(23,872)
Derivatives - economic hedges		(26)	26	-	-
Other		(88)	(3)	-	(91)
		(1,156)	(22,807)	-	(23,963)
Net deferred tax assets		24,844	(23,237)	(7,204)	(5,597)

(note: 13)

The parent has no deferred income tax assets/liabilities.

Notes to and forming part of the Financial Statements - Continued

For the 52 week period ended 31 July 2011

25. PROPERTY, PLANT AND EQUIPMENT

Group	2011	2010
	\$ 000	\$ 000
Available for sale land and buildings	5,744	-
Property, plant and equipment	291,922	272,346
Net carrying amount	297,666	272,346

(a) Available for sale land and buildings

At balance date the Group was in negotiations with a potential purchaser of one of the Group's Distribution Centre sites following an unsolicited purchase offer.

(b) Movement in property, plant and equipment

Reconciliations of the carrying amounts of property, plant and equipment at the beginning and end of the year are set out below:

Group	Note	Freehold land	Freehold buildings	Store fittings and equipment	Computer hardware	Vehicles	Work in progress	Total
		\$ 000	\$ 000	\$ 000	\$ 000	\$ 000	\$ 000	\$ 000
For the 52 week period ended 31 July 2011								
Opening carrying amount		76,331	103,687	69,230	15,736	1,118	6,244	272,346
Additions	5	12,045	11,797	30,754	4,129	291	2,948	61,964
Disposals		(1,342)	(2,508)	(773)	(133)	(56)	-	(4,812)
Depreciation	5, 9	-	(2,618)	(22,250)	(6,485)	(366)	-	(31,719)
Earthquake Impairment		-	-	(113)	-	-	-	(113)
Closing carrying amount		87,034	110,358	76,848	13,247	987	9,192	297,666

At 31 July 2011

Cost	87,034	134,930	312,990	82,292	2,511	9,192	628,949
Accumulated depreciation and impairment	-	(24,572)	(236,142)	(69,045)	(1,524)	-	(331,283)
Net carrying amount	87,034	110,358	76,848	13,247	987	9,192	297,666

For the 52 week period ended 1 August 2010

Opening carrying amount	53,720	104,683	77,812	16,322	1,428	3,523	257,488
Additions	5	20,111	4,342	16,202	5,995	163	49,534
Reclassification		2,500	(2,500)	-	-	-	-
Disposals		-	-	(955)	(564)	(77)	(1,596)
Depreciation	5, 9	-	(2,838)	(23,829)	(6,017)	(396)	(33,080)
Closing carrying amount		76,331	103,687	69,230	15,736	1,118	272,346

At 1 August 2010

Cost	76,331	125,939	288,625	82,680	2,474	6,244	582,293
Accumulated depreciation	-	(22,252)	(219,395)	(66,944)	(1,356)	-	(309,947)
Net carrying amount	76,331	103,687	69,230	15,736	1,118	6,244	272,346

At 2 August 2009

Cost	53,720	124,240	277,594	78,492	2,748	3,523	540,317
Accumulated depreciation	-	(19,557)	(199,782)	(62,170)	(1,320)	-	(282,829)
Net carrying amount	53,720	104,683	77,812	16,322	1,428	3,523	257,488

Notes to and forming part of the Financial Statements - Continued

For the 52 week period ended 31 July 2011

25. PROPERTY, PLANT AND EQUIPMENT (continued)

(c) Property valuations

The directors, having taken into consideration purchase offers, independent and government valuations and other known factors, have assessed the fair value of freehold land and buildings to be \$296.465 million (2010: \$279.258 million). The directors' valuation was approved by the Board on 15 September 2011. Independent property valuations are sought at least every three years, unless other factors indicate there may have been a significant change in fair value which would necessitate a revaluation being undertaken earlier.

Group	Carrying Amount		Directors Valuation	
	2011	2010	2011	2010
	\$ '000	\$ '000	\$ '000	\$ '000
Freehold land and buildings				
Support offices	10,718	11,020	23,000	23,000
Distribution centres	40,809	41,279	97,000	96,000
Stores	109,276	99,598	129,387	117,287
Development assets and tenanted property	36,589	28,121	47,078	42,971
Total freehold land and buildings	197,392	180,018	296,465	279,258

Stores comprise eleven (2010: ten) store sites located throughout New Zealand. Development assets include three (2010: two) Auckland properties and properties at Silverdale and Timaru.

(d) Property disposals

During the year Group sold a number of properties, including its Warehouse Stationery store (and adjacent tenancy) located in Invercargill and two small parcels of surplus land located next to stores in Christchurch and Auckland, together realising a pre-tax profit of \$1.470 million. There were no property disposals during the previous year.

(e) Impairment review

Management annually review the carrying amounts of property, plant and equipment for impairment. For the purposes of this review assets are grouped at the lowest level for which there are separately identifiable cash flows (cash generating units), which in most instances is a store. 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 the asset may not be recoverable. The Group's impairment review did not identify any asset impairment (2010: nil) except for those assets damaged in the Canterbury earthquakes (refer note 12).

The parent has no property, plant and equipment.

Notes to and forming part of the Financial Statements - Continued

For the 52 week period ended 31 July 2011

26. COMPUTER SOFTWARE

Reconciliations of the carrying amounts of computer software at the beginning and end of the year are set out below:

Group	Note	Computer software \$ '000	Work in progress \$ '000	Total \$ '000
For the 52 week period ended 31 July 2011				
Opening carrying amount		20,733	307	21,040
Additions	5	5,932	(307)	5,625
Disposals		(180)	-	(180)
Amortisation	5, 9	(8,053)	-	(8,053)
Closing carrying amount		18,432	-	18,432
At 31 July 2011				
Cost		72,882	-	72,882
Accumulated amortisation		(54,450)	-	(54,450)
Net carrying amount		18,432	-	18,432
For the 52 week period ended 1 August 2010				
Opening carrying amount		23,095	97	23,192
Additions	5	5,925	210	6,135
Disposals		(430)	-	(430)
Amortisation	5, 9	(7,857)	-	(7,857)
Closing carrying amount		20,733	307	21,040
At 1 August 2010				
Cost		67,411	307	67,718
Accumulated amortisation		(46,678)	-	(46,678)
Net carrying amount		20,733	307	21,040
At 2 August 2009				
Cost		62,700	97	62,797
Accumulated amortisation		(39,605)	-	(39,605)
Net carrying amount		23,095	97	23,192

The Group's annual impairment review of computer software did not identify any assets which should be impaired (2010: nil).

The parent has no computer software.

Notes to and forming part of the Financial Statements - Continued

For the 52 week period ended 31 July 2011

27. INVESTMENTS

Movements in the carrying amount of the Group's investment in associates are as follows:

Group	2011	2010
	\$ 000	\$ 000
Opening balance	5,921	7,376
Share of associates profit before taxation	5,124	4,033
Less taxation	(1,549)	(1,225)
Equity earnings of associate	3,575	2,808
Distributions received	(1,911)	(4,263)
Closing balance	7,585	5,921

(a) Investment details

The Group has a 49% interest, and Westpac a 51% interest in The Warehouse Financial Services Limited. The Warehouse Financial Services Limited offers consumer credit and risk related products that include credit cards and insurance cover. The products and services are sold through The Warehouse stores as well as by direct mail and over the telephone.

The balance date of The Warehouse Financial Services Limited is 30 September. The share of associate earnings is based on both audited financial statements for the year ended 30 September 2010 and unaudited management accounts for the ten month period ended 31 July 2011.

(b) Summarised financial information

Details of the summarised financial information relating to the Group's associate is set out below.

	2011	2010
	\$ 000	\$ 000
Extract from the associates balance sheet		
Loans	70,631	71,345
Other assets	20,396	17,668
	91,027	89,013
Liabilities	(75,548)	(76,930)
Net assets	15,479	12,083
Share of associates net assets	7,585	5,921
Extract from associates income statement		
Operating income	15,591	16,122
Net profit after tax	7,295	5,730

The parent has an investment in subsidiaries at cost of \$42.000 million (2010: \$42.000 million). The value of the parent's investment represents a 100% (2010: 100%) shareholding in The Warehouse Limited.

A list of Group companies are detailed in note 39.

Notes to and forming part of the Financial Statements - Continued

For the 52 week period ended 31 July 2011

28. PROVISIONS

Group	Note	Current		Non-current		Total	
		2011	2010	2011	2010	2011	2010
		\$ 000	\$ 000	\$ 000	\$ 000	\$ 000	\$ 000
Annual performance incentive payment		3,871	9,707	-	-	3,871	9,707
Cash settled share-based compensation	15	-	1,684	-	-	-	1,684
Annual leave		17,987	18,478	-	-	17,987	18,478
Long service leave		-	-	6,402	6,199	6,402	6,199
Other employee benefits		5,844	4,521	1,205	1,065	7,049	5,586
Employee benefits		27,702	34,390	7,607	7,264	35,309	41,654
Make good provision		775	771	2,117	1,959	2,892	2,730
Sales returns provision		2,607	2,488	-	-	2,607	2,488
Onerous lease		334	-	371	-	705	-
Warranty provision		7,355	-	-	7,414	7,355	7,414
		38,773	37,649	10,095	16,637	48,868	54,286

(a) Movements in provisions

Movements in each class of provision during the year, other than provisions relating to employee benefits are set out below:

Group	Make good		Sales return		Warranty	
	2011	2010	2011	2010	2011	2010
	\$ 000	\$ 000	\$ 000	\$ 000	\$ 000	\$ 000
Opening balance	2,730	2,703	2,488	2,396	7,414	7,414
Arising during the year	897	683	2,607	2,488	-	-
Net settlements	(735)	(656)	(2,488)	(2,396)	(59)	-
Closing balance	2,892	2,730	2,607	2,488	7,355	7,414

Nature and timing of provisions

(b) Employee benefit provisions

Refer to note 1(o) for the relevant accounting policy and discussion of the significant estimations and assumptions applied in the measurement of these provisions.

(i) Annual performance incentive payment

The annual performance incentive payment is payable within two months of balance date when individual and company performance against specified targets have been evaluated and the financial statements have been finalised and audited.

(ii) Annual leave

This provision represents employee entitlements to untaken annual and long service leave vested at balance date.

(iii) Long service leave

Employees are entitled to four weeks additional paid leave after ten years of continuous employment with the Group. This provision represents the present value of expected future payments to be made in respect of services provided by employees at balance date.

(iv) Other employee benefits

Employees are entitled to a minimum of five days annual sick leave with any unused days up to a maximum of fifteen days carried over to the next year and added to the annual entitlement. A provision for sick leave has been recognised for employees with entitlements in excess of one year, where it is likely that the entitlement will be taken. This provision also includes an estimate of the Group's outstanding ACC (Accident Compensation Corporation) liabilities.

(c) 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 the cost of make good costs incurred and costs incurred which mitigate the final liability prior to the lease expiry.

(d) Sales return

The Group offers a twelve month money back guarantee on most customer sales. This provision represents the estimated sales return obligation at balance date based on historical sale return rates.

Notes to and forming part of the Financial Statements - Continued

For the 52 week period ended 31 July 2011.

28. PROVISIONS (continued)

(e) Onerous lease

The Group has recognised a 13 month lease liability for a vacant store site commencing from January 2013 which arises from a store relocation.

(f) Warranty

In November 2005 the Group sold the business assets of The Warehouse Australia to Australian Discount Retail (ADR). In accordance with the sale and purchase agreement, the Group provided certain warranties and indemnities to ADR, most of those warranties and indemnities have been settled or have expired. A number continue and a provision is retained where it is probable that a liability exists from these obligations based on managements assessment of the risk associated with the remaining warranties. If a notification of claim is not received, the majority of these warranties expire in December 2011.

Under commercial arrangements associated with the sale process in November 2005, the Group also retained guarantees to certain landlords in respect of rental payments by ADR after November 2005. In January 2009 ADR was placed in receivership, until the receivership process concludes it remains uncertain whether the existing status of the Group's liability will change. It is expected that the Group's exposure to these issues will cease in December 2011 when the receivership process is anticipated to conclude.

The parent has no provisions.

29. BORROWINGS

	Note	Group 2011 \$ '000	Group 2010 \$ '000	Parent 2011 \$ '000	Parent 2010 \$ '000
Bank borrowings at call (interest rate: 3.50%)		-	75,000	-	-
Current borrowings		-	75,000	-	-
Bank borrowings (interest rate: 3.37%)		50,000	-	-	-
Fixed rate senior bond (coupon: 7.37%)		100,000	100,000	100,000	100,000
Fair value adjustment relating to senior bond effective interest		337	162	-	-
Unamortised capitalised costs on senior bond		(1,208)	(1,520)	(1,208)	(1,520)
Non-current borrowings		149,129	98,642	98,792	98,480
	4	149,129	173,642	98,792	98,480

Cash balances have been netted off against bank overdrafts where the Group has a 'set off' arrangement with a bank counter party. The average bank overdraft interest rate incurred for the year was 8.93% (2010: 9.43%).

(a) Fair values

The fair value of the fixed rate senior bond at balance date was \$103.926 million (2010: \$101.906 million) based on the last price traded on the New Zealand stock exchange and a market yield of 6.50% (2010: 6.90%).

The carrying amount of the Group's bank borrowings approximate their fair values.

(b) Borrowing covenants

Bank borrowings and the fixed rate senior bond are subject to a negative pledge. Details regarding the negative pledge and restrictive covenants is disclosed in note 3.

(c) Interest rate and liquidity risk

Details regarding interest rate and liquidity risk is disclosed in note 4.

(d) Fixed rate senior bond

In April 2010 the Group issued a \$100.000 million fixed rate senior bond bearing a fixed interest rate of 7.37% per annum. Interest is payable every six months on 15 June and 15 December and the bond has a final maturity in June 2015. The Group incurred costs of \$1.600 million in connection with the issuance of the bond which were capitalised. These costs are being amortised equally over the term of the bond. An amortisation expense of \$0.312 million (2010: \$0.080 million) has been recognised as part of the interest expense during the year.

Notes to and forming part of the Financial Statements - Continued

For the 52 week period ended 31 July 2011

30. CONTRIBUTED EQUITY

	Group 2011 \$ 000	Group 2010 \$ 000	Parent 2011 \$ 000	Parent 2010 \$ 000
Share capital	251,445	251,445	251,445	251,445
Treasury stock	(7,385)	(8,262)	-	-
	244,060	243,183	251,445	251,445

(a) Share capital

Group and Parent	Share capital		Ordinary Shares	
	2011 \$ 000	2010 \$ 000	2011 000	2010 000
Opening balance	251,445	251,445	311,196	311,196
Closing balance	251,445	251,445	311,196	311,196

Fully paid ordinary shares carry one vote per share and participate equally in dividends, other distributions from equity and any surplus on a winding up of the Group. No shares were issued during the current financial year (2010: Nil).

(b) Treasury stock

Group	Note	Treasury stock		Ordinary Shares	
		2011 \$ 000	2010 \$ 000	2011 000	2010 000
Opening balance		8,262	14,356	1,797	3,162
Ordinary shares issued to settle share plan obligations	31, 15	(2,110)	(1,751)	(440)	(365)
Ordinary shares issued to employee share purchase plan	31, 21	-	(4,355)	-	(1,003)
Ordinary shares purchased on market		1,042	-	300	-
Ordinary shares forfeited under the staff share purchase plan	21	191	12	62	3
Closing balance		7,385	8,262	1,719	1,797
Percentage of share capital				0.55 %	0.58 %

The Group retains its own ordinary shares for later use in employee share based payment arrangements and are deducted from equity. These shares carry the same voting rights as other issued ordinary shares. Voting rights attached to the shares are held by the trustees of the employee share schemes, and dividends paid on the shares are retained by the trustee for the benefit of the Group. The directors may appoint or remove any trustee by directors' resolution. The current trustees of the share plans are detailed in note 39.

Notes to and forming part of the Financial Statements - Continued

For the 52 week period ended 31 July 2011

31. RESERVES

Group	Note	2011	2010
		\$ 000	\$ 000
Cash flow hedge reserve	22	(24,104)	(4,007)
Share based payments reserve		2,812	3,422
		(21,292)	(585)

(a) 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.

(b) Share based payments reserve

The Group currently has an employee share right plan (refer note 15) and an employee share purchase plan (refer note 21). This reserve is used to record the accumulated value of unvested shares rights and employee share purchases plan discount (net of the fair value adjustment on the employee loans), which have been recognised in the income statement.

Upon the vesting of share rights, the balance of the reserve relating to the share rights is offset against the cost of treasury stock allotted to settle the obligation, with any difference in the cost of settling the commitment transferred to retained earnings.

When an employee share loan is fully repaid and the associated shares vest to the employee the balance of the reserve relating to the employee share purchase plan is transferred to retained earnings.

Group	Note	2011	2010
		\$ 000	\$ 000
Opening balance		3,422	3,654
Share based payments expense	7	1,640	2,609
Transfer from treasury stock	30	(2,110)	(6,106)
Transfer to employee share purchase plan		-	2,700
Transferred to retained earnings	33	(140)	565
Closing balance		2,812	3,422

The parent has no reserves.

32. MINORITY INTEREST

Group	2011	2010
	\$ 000	\$ 000
Opening balance	340	251
Net profit attributable to minority interest	316	355
Dividends paid to minority shareholders	(331)	(266)
Closing balance	325	340

Minority interests predominantly relate to the 50% minority shareholding held in Waikato Valley Chocolates Limited.

The parent has no minority interests.

Notes to and forming part of the Financial Statements - Continued

For the 52 week period ended 31 July 2011

33. RETAINED EARNINGS

	Note	Group 2011 \$ '000	Group 2010 \$ '000	Parent 2011 \$ '000	Parent 2010 \$ '000
Opening balance		60,308	100,887	10,884	10,886
Net profit attributable to shareholders		77,829	60,185	90,244	101,137
Dividends paid to shareholders	34	(90,246)	(101,139)	(90,246)	(101,139)
Treasury stock dividends received		416	940	-	-
Transferred from share based payments reserve	31	140	(565)	-	-
Closing balance		48,447	60,308	10,882	10,884

34. DIVIDENDS

Group and Parent		Dividends paid		Cents per share	
	Note	2011 \$ '000	2010 \$ '000	2011	2010
Prior year final dividend		26,451	17,116	8.5	5.5
Interim dividend		48,235	48,235	15.5	15.5
		74,686	65,351	24.0	21.0
Special interim dividend	3	-	4,669	-	1.5
Special final dividend	3	15,560	31,119	5.0	10.0
Total dividends paid	33	90,246	101,139	29.0	32.5

All dividends paid were fully imputed. Supplementary dividends of \$1.033 million (2010: \$1.078 million) were paid.

Dividend policy

The Group's dividend policy is to pay a dividend equal to 90% of adjusted net profit. Adjusted net profit makes allowance for unusual items, which include profits from the disposal of properties, release of warranty provisions, unrealised gains or losses from changes in the fair value of financial instruments and tax adjustments arising from the 2010 Government Budget.

The Board declares two dividends annually in respect of the half year (interim dividend) and full year results (final dividend). The final dividend is accounted for in the year it is paid.

Details of the final dividend and special dividend declared by the board after balance date and the dividend payout ratio are set out below:

Group and Parent		Dividends paid and declared		Cents per share	
	Note	2011 \$ '000	2010 \$ '000	2011	2010
Interim dividend		48,235	48,235	15.5	15.5
Final dividend (declared after balance date)		20,228	26,451	6.5	8.5
		68,463	74,686	22.0	24.0
Special interim dividend		-	4,669	-	1.5
Special final dividend (declared after balance date)		-	15,560	-	5.0
Total dividends paid and declared		68,463	94,915	22.0	30.5
Adjusted net profit	38	76,027	83,418		
Payout ratio (%) - excluding special dividend		90.1 %	89.5 %		

On 15 September 2011 the board declared a final fully imputed ordinary dividend of 6.5 cents per share to be paid on 4 November 2011 to all shareholders on the Group's share register at the close of business on 16 November 2011.

Notes to and forming part of the Financial Statements - Continued

For the 52 week period ended 31 July 2011

35. IMPUTATION CREDIT ACCOUNT

The amount of imputation credits at balance date available for future distributions are set out below:

Imputation credit account	Group	Group	Parent	Parent
	2011	2010	2011	2010
	\$ 000	\$ 000	\$ 000	\$ 000
Opening balance	58,554	82,845	18,388	20,648
Taxation payments made	36,500	21,972	-	-
Credits attached to dividends paid	(38,677)	(48,736)	(38,677)	(48,736)
Credits attached to dividends received	948	2,211	39,710	46,476
Other adjustments	373	262	617	-
Closing balance	57,698	58,554	20,038	18,388

Certain Group subsidiary companies form a consolidated group for income tax purposes. The Group imputation credit account movements, reported above, are for the tax group and parent, and are available to shareholders either directly or indirectly through their shareholding in the parent company.

36. CONTINGENT LIABILITIES

Group	2011	2010
	\$ 000	\$ 000
Bank letters of credit issued to secure future purchasing requirements	13,184	15,899
Less included as a goods in transit creditor	(769)	(1,539)
	12,415	14,360
Bank guarantees provided to landlords and the New Zealand Stock Exchange Limited	315	315
Lease disputes	300	300
Workers compensation claims	1,000	1,000
Total contingent liabilities	14,030	15,975

Letter of credit

Bank letters of credit issued to secure future purchasing requirements are matched to a contingent asset of the same value representing the inventories purchased.

Bank guarantees

No settlement relating to bank guarantees has occurred since their inception and any future outflow appears unlikely.

The Warehouse Australia

In November 2005 the Group sold the business assets of The Warehouse Australia to Australian Discount Retail (ADR). In accordance with the sale and purchase agreement, the Group provided certain warranties and indemnities to ADR, most of those warranties and indemnities have been settled or have expired. A number continue and a provision is retained where it is probable that a liability exists from these obligations based on managements assessment of the risk associated with the remaining warranties. If a notification of claim is not received, the majority of these warranties expire in December 2011.

There are still potential residual exposures for unknown claims arising from the Group's ownership of The Warehouse Australia business prior to November 2005 that cannot be quantified. Under commercial arrangements associated with the sale process in November 2005, the Group also retained guarantees to certain landlords in respect of rental payments by ADR after November 2005. In January 2009 ADR was placed in receivership; until this process concludes it remains uncertain whether the existing status of the Group's contingent liabilities will change. It is expected that the majority of Group's exposure to these issues will cease in December 2011 when the receivership process is anticipated to conclude.

Other contingent liabilities

Other contingent liabilities arise in the ordinary course of business. The likelihood and value of any future outflow relating to these liabilities is uncertain.

The parent had no contingent liabilities.

Notes to and forming part of the Financial Statements - Continued

For the 52 week period ended 31 July 2011

37. COMMITMENTS

(a) Capital commitments

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

Group	2011	2010
	\$ 000	\$ 000
Within one year	46,224	14,927

The capital commitments at balance date include costs to complete a retail development in Silverdale of \$38.301 million which has a planned completion date of October 2012. The 2010 comparative included costs (\$10.381 million) to complete a retail development in Gisborne which opened in November 2010.

(b) Operating leases

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

Group	2011	2010
	\$ 000	\$ 000
Future minimum rentals payable		
0-1 Years	56,483	52,696
1-2 Years	46,011	42,775
2-5 Years	66,607	69,134
5+ Years	20,486	15,335
	189,587	179,940

The parent has no capital or lease commitments.

38. ADJUSTED NET PROFIT RECONCILIATION

Group	Note	2011	2010
		\$ 000	\$ 000
Adjusted net profit	34	76,027	83,418
Unusual items			
Gain on disposal of property	25	1,470	-
Changes in fair value of financial instruments	4	194	(282)
		1,664	(282)
Income tax relating to unusual items		(499)	85
Income tax expense relating to Government Budget changes	13	637	(23,036)
Net profit attributable to shareholders of the parent		77,829	60,185
Earnings per share based on adjusted net profit			
Basic earnings per share		24.6 cents	27.0 cents
Diluted earnings per share		24.4 cents	26.9 cents

Notes to and forming part of the Financial Statements - Continued

For the 52 week period ended 31 July 2011

39. 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.

(a) 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.

	Shareholding		Dividends received	
	2011	2010	2011	2010
	000	000	\$ 000	\$ 000
Beneficial interest				
R L Challinor	2	2	1	1
G F Evans	11	11	3	4
I R Morrice (refer sub-note (b))	1,437	1,289	120	101
J H Ogden	11	11	3	4
J L Smith	10	-	2	-
K R Smith	12	12	3	4
R J Tindall (alternate director - effective from July 2011)	5	5	1	2
Sir Stephen Tindall (refer sub-notes (b) and (c))	84,058	84,058	24,377	27,365
Non beneficial interest as trustees of the Group's employee share plans				
I R Morrice, K R Smith and L N E Bunt as trustees of The Warehouse Management Trustee Company Limited	1,757	1,769	219	574
G F Evans and K R Smith as trustees of The Warehouse Management Trustee Company No.2 Limited	891	1,031	197	366

Other key executives (as detailed in note 14) collectively held 222,000 shares (2010: 297,000 shares) at balance date which carry the normal entitlement to dividends. Non-beneficial director shareholdings are separately disclosed in the "Statutory disclosures" section of the annual report.

R L Challinor also holds a \$50,000 (2010: \$50,000) face value interest in the Group's fixed rate senior bond.

(b) Share deed

Sir Stephen Tindall (Director) maintains an interest in 1,000,000 shares sold to I R Morrice (Director) as a guarantor of a put option in favour of the holder (exercisable at any time on or before 30 November 2011) and a holder of a mortgage over the shares to secure the debt. Under this arrangement dividends received on these shares are paid to Sir Stephen Tindall as mortgage interest. The dividends of \$290,000 (2010: \$325,000), which were received on these shares, are only included in the table above as dividends received by Sir Stephen Tindall. As both Sir Stephen Tindall and I R Morrice have a beneficial interest in the same 1,000,000 parcel of shares these shares are included in the shareholdings of both directors in the table above.

(c) The Tindall Foundation

Sir Stephen Tindall (Director) is a trustee of The Tindall Foundation. The Tindall Foundation is an incorporated charitable trust and as such it is recognised as having a separate legal existence. This differs from unincorporated trusts, which have no separate legal existence apart from their trustees. For the purposes of stock exchange disclosures, the trustees of The Tindall Foundation do not have a disclosable interest in the shares held by The Tindall Foundation. At balance date The Tindall Foundation held and received dividends on 66,323,220 shares (2010: 66,323,220 shares) in the Group. Dividends of \$19.234 million (2010: \$21.555 million) were received on these shares during the year.

(d) Share transactions by directors

Share transactions undertaken by the directors during the year 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.

(e) Related party directorships

Keith Smith is a director of the Group and is also a director of Mighty River Power Limited (MRP). MRP is a supplier of electricity to the Group. During the year the Group paid \$6.473 million (2010: \$9.695 million) to MRP to purchase electricity on an arm's length basis at normal commercial rates.

J H Ogden is a director of the Group and was until April 2010 a Director of Kiwibank Limited. The Group has a \$20.000 million debt facility with Kiwibank, which forms part of an overall debt facility of \$303.000 million (2010: \$358.000 million - refer note 4). The Group uses the Kiwibank debt facility as part of its day to day cash management. Fees incurred on the facility are on an arm's length basis at normal commercial terms.

Notes to and forming part of the Financial Statements - Continued

For the 52 week period ended 31 July 2011.

39. RELATED PARTIES (continued)

(f) Parent

During the period the Parent advanced and repaid loans to its subsidiaries by way of internal current accounts. In presenting the financial statements of the Group, the effect of transactions and balances between fellow subsidiaries and those with the Parent have been eliminated. All transactions with related parties were in the normal course of business and provided on commercial terms.

The Parent entered into certain transactions with its subsidiaries as follows:

Material amounts outstanding between the Parent and its subsidiaries at year end were:

(i) Loans from the Parent to subsidiaries \$316.508 million (2010: \$316.149 million).

Material transactions between the Parent and its subsidiaries were:

(ii) The parent entered a \$100.000 million loan agreement in April 2010 with a subsidiary on terms aligned to finance the interest and principal commitments of the Group's fixed rate senior bond (refer note 29)

(iii) Interest received by the Parent from its subsidiaries \$7.682 million (2010: \$2.269 million)

(iv) Dividends received by the Parent from its subsidiaries \$90.246 million (2010: \$101.139 million).

(g) Subsidiaries

The following subsidiaries have been included in the consolidated financial statements:

	Principal activity	Equity holding	
		2011	2010
		%	%
Guaranteeing Subsidiaries			
<u>New Zealand subsidiaries</u>			
The Warehouse Limited	Retail	100	100
Boye Developments Limited	Investment	100	100
Eldamos Investments Limited	Property owner	100	100
The Warehouse Nominees Limited	Investment	100	100
Waikato Valley Chocolates Limited ¹	Chocolate factory	50	50
Warehouse Stationery Limited	Retail	100	100
<u>New Zealand employee share plan trustees</u>			
The Warehouse Management Trustee Company Limited ¹	Share plan trustee	100	100
The Warehouse Management Trustee Company No 2. Limited ¹	Share plan trustee	100	100
<u>New Zealand non-trading subsidiaries</u>			
The Warehouse Card Limited		100	100
The Warehouse Cellars Limited		100	100
Eldamos Nominees Limited ¹		100	100
<u>Non-trading Australian subsidiaries</u>			
TWGA Pty Limited ¹		100	100
TWL Australia Pty Limited ¹		100	100
Non-Guaranteeing Subsidiaries			
<u>New Zealand subsidiaries</u>			
TWNL Projects Limited	Store development	50	50
TWP No.1 Limited	Retail	49	49
TWP No.2 Limited	Retail	49	49
<u>New Zealand non-trading subsidiaries and joint ventures</u>			
Farran Nine Limited		50	50
Lincoln West Limited		50	50
The Warehouse Investments Limited		100	100

Note 1 – For the purposes of the fixed rate senior bond trust deed these subsidiaries are designated as non-guaranteeing subsidiaries which differs from the negative pledge deed held by the Groups banks where they are designated as guaranteeing subsidiaries.



Independent Auditors' Report to the shareholders of The Warehouse Group Limited

Report on the Financial Statements

We have audited the financial statements of The Warehouse Group Limited on pages 1 to 48 which comprise the balance sheets as at 31 July 2011, the income statements, statements of comprehensive income and statements of changes in equity and statements of cash flows for the 52 week period then ended, and the notes to the financial statements that include a summary of significant accounting policies and other explanatory information for both the Company and the Group. The Group comprises the Company and the entities it controlled at 31 July 2011 or from time to time during the financial year.

Directors' Responsibility for the Financial Statements

The Directors are responsible for the preparation of these financial statements in accordance with generally accepted accounting practice in New Zealand and that give a true and fair view of the matters to which they relate and for such internal controls as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand) and International Standards on Auditing. These standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider the internal controls relevant to the Company and the Group's preparation of financial statements that give a true and fair view of the matters to which they relate, 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 Company and the Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the financial statements.

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

We have no relationship with, or interests in, The Warehouse Group Limited or any of its subsidiaries other than in our capacities as auditors of the financial statements and providers of other assurance services. These services have not impaired our independence as auditors of the Company and the Group.



Independent Auditors' Report

The Warehouse Group Limited

Opinion

In our opinion, the financial statements on pages 1 to 48:

- (i) comply with generally accepted accounting practice in New Zealand;
- (ii) comply with International Financial Reporting Standards; and
- (iii) give a true and fair view of the financial position of the Company and the Group as at 31 July 2011, and their financial performance and cash flows for the 52 week period ended on that date.

Report on Other Legal and Regulatory Requirements

We also report in accordance with Sections 16(1)(d) and 16(1)(e) of the Financial Reporting Act 1993. In relation to our audit of the financial statements for the 52 week period ended 31 July 2011:

- (i) we have obtained all the information and explanations that we have required; and
- (i) in our opinion, proper accounting records have been kept by the Company and the Group as far as appears from an examination of those records.

Restriction on Distribution or Use

This report is made solely to the Company's shareholders, as a body, in accordance with Section 205(1) of the Companies Act 1993. Our audit work has been undertaken so that we might state to the Company's shareholders those matters which we are required to state to them in an auditors' 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.

A handwritten signature in blue ink that reads 'PricewaterhouseCoopers'.

Chartered Accountants
15 September 2011

Auckland