The Warehouse Group Limited
Interim Financial Statements

For the 26 weeks ended 30 January 2022

For and on behalf of the Board

Joan Withers
Chair

Dean Hamilton
Chair of the Audit and Risk Committee

21 March 2022

Consolidated Income Statement

	Note	Unaudited 26 Weeks Ended 30 January 2022	Unaudited 26 Weeks Ended 31 January 2021	Audited 52 Weeks Ended 1 August 2021
		$ 000	$ 000	$ 000
Retail sales	4	1,729,984	1,808,255	3,414,601
Cost of retail goods sold		(1,130,424)	(1,152,874)	(2,173,245)
Gross profit		599,560	655,381	1,241,356
Other income		3,624	2,639	7,050
Employee expenses		(297,740)	(286,678)	(573,734)
Depreciation and amortisation expenses	4	(77,495)	(73,550)	(149,303)
Other operating expenses		(140,652)	(124,378)	(244,255)
Operating profit	4	87,297	173,414	281,114
Unusual items	5	-	(79,036)	(86,955)
Earnings before interest and tax		87,297	94,378	194,159
Net interest expense		(18,457)	(18,886)	(37,458)
Profit before tax		68,840	75,492	156,701
Income tax expense		(19,652)	(21,250)	(40,491)
Net profit for the period		49,188	54,242	116,210
Attributable to:				
Shareholders of the parent		50,442	54,965	117,651
Minority interests		(1,254)	(723)	(1,441)
		49,188	54,242	116,210
Earnings per share attributable to shareholders of the parent:				
Basic earnings per share		14.6 cents	15.9 cents	34.1 cents

Consolidated Statement of Comprehensive Income

	Unaudited 26 Weeks Ended 30 January 2022	Unaudited 26 Weeks Ended 31 January 2021	Audited 52 Weeks Ended 1 August 2021
	$ 000	$ 000	$ 000
Net profit for the period	49,188	54,242	116,210
Items that may be reclassified subsequently to the Income Statement			
Movement in foreign currency translation reserve	383	(45)	55
Movement in hedge reserves (net of tax)	9,174	(640)	19,188
Total comprehensive income for the period	58,745	53,557	135,453
Attributable to:			
Shareholders of the parent	59,999	54,280	136,894
Minority interest	(1,254)	(723)	(1,441)
Total comprehensive income	58,745	53,557	135,453

Consolidated Statement of Changes in Equity

(Unaudited)	Note	Share Capital	Treasury Stock	Hedge Reserves	Foreign Currency Translation Reserve	Retained Earnings	Minority Interest	Total Equity
For the 26 weeks ended 30 January 2022		$ 000	$ 000	$ 000	$ 000	$ 000	$ 000	$ 000
Balance at the beginning of the period		365,517	(5,282)	6,171	(115)	85,871	(2,694)	449,468
Profit for the half year		-	-	-	-	50,442	(1,254)	49,188
Movement in foreign currency translation reserve		-	-	-	383	-	-	383
Movement in derivative cash flow hedges		-	-	12,741	-	-	-	12,741
Tax related to movement in hedge reserve		-	-	(3,567)	-	-	-	(3,567)
Total comprehensive income		-	-	9,174	383	50,442	(1,254)	58,745
Minority put option exercised		-	-	-	-	(1,316)	983	(333)
Dividends paid		-	-	-	-	(60,698)	(126)	(60,824)
Treasury stock dividends received		-	-	-	-	243	-	243
Balance at the end of the period		365,517	(5,282)	15,345	268	74,542	(3,091)	447,299

(Unaudited)	Share Capital	Treasury Stock	Hedge Reserves	Foreign Currency Translation Reserve	Retained Earnings	Minority Interest	Total Equity
For the 26 weeks ended 31 January 2021	$ 000	$ 000	$ 000	$ 000	$ 000	$ 000	$ 000
Balance at the beginning of the period	365,517	(5,456)	(13,017)	(170)	30,259	(794)	376,339
Profit for the half year	-	-	-	-	54,965	(723)	54,242
Movement in foreign currency translation reserve	-	-	-	(45)	-	-	(45)
Movement in cash flow and monetised hedges	-	-	(889)	-	-	-	(889)
Tax related to movement in hedge reserve	-	-	249	-	-	-	249
Total comprehensive income	-	-	(640)	(45)	54,965	(723)	53,557
Share rights charged to the income statement	-	-	-	-	-	72	72
Minority put options exercised	-	94	-	-	(361)	267	-
Balance at the end of the period	365,517	(5,362)	(13,657)	(215)	84,863	(1,178)	429,968

(Audited)	Share Capital	Treasury Stock	Hedge Reserves	Foreign Currency Translation Reserve	Retained Earnings	Minority Interest	Total Equity
For the 52 weeks ended 1 August 2021	$ 000	$ 000	$ 000	$ 000	$ 000	$ 000	$ 000
Balance at the beginning of the period	365,517	(5,456)	(13,017)	(170)	30,259	(794)	376,339
Profit for the year	-	-	-	-	117,651	(1,441)	116,210
Movement in foreign currency translation reserve	-	-	-	55	-	-	55
Movement in derivative cash flow hedges	-	-	26,651	-	-	-	26,651
Tax related to movement in hedge reserve	-	-	(7,463)	-	-	-	(7,463)
Total comprehensive income	-	-	19,188	55	117,651	(1,441)	135,453
Contributions by and distributions to owners:							
Share rights charged to the income statement	-	-	-	-	-	93	93
Share rights vested	-	-	-	-	1,697	(1,697)	-
Minority put options exercised	-	174	-	-	(1,558)	1,145	(239)
Dividends paid	-	-	-	-	(62,432)	-	(62,432)
Treasury stock dividends received	-	-	-	-	254	-	254
Balance at the end of the period	365,517	(5,282)	6,171	(115)	85,871	(2,694)	449,468

Consolidated Balance Sheet

	Note	Unaudited As at 30 January 2022 $ 000	Unaudited As at 31 January 2021 $ 000	Audited As at 1 August 2021 $ 000
ASSETS				
Current assets				
Cash and cash equivalents	16	149,966	183,585	160,526
Trade and other receivables	8	89,586	86,129	79,277
Inventories	7	530,615	497,740	457,151
Derivative financial instruments	17	31,536	77	8,837
Taxation receivable		1,053	-	-
Total current assets		802,756	767,531	705,791
Non-current assets				
Derivative financial instruments	17	-	-	1,310
Property, plant and equipment	11	199,019	195,839	194,619
Intangible assets	12	189,295	149,745	166,991
Right of use assets	13	699,852	751,380	736,524
Investment in associate	3	4,176	-	-
Deferred taxation		79,904	97,211	86,120
Total non-current assets		1,172,246	1,194,175	1,185,564
Total assets		1,975,002	1,961,706	1,891,355
LIABILITIES				
Current liabilities				
Trade and other payables	9	600,310	501,644	436,579
Derivative financial instruments	17	-	31,742	4,353
Taxation payable		-	4,255	10,878
Lease liabilities	14	96,782	96,287	97,812
Provisions	10	55,457	63,029	74,515
Total current liabilities		752,549	696,957	624,137
Non-current liabilities				
Lease liabilities	14	754,144	813,861	794,379
Provisions	10	21,010	20,920	23,371
Total non-current liabilities		775,154	834,781	817,750
Total liabilities		1,527,703	1,531,738	1,441,887
Net assets		447,299	429,968	449,468
EQUITY				
Contributed equity		360,235	360,155	360,235
Reserves		15,613	(13,872)	6,056
Retained earnings		74,542	84,863	85,871
Total equity attributable to shareholders		450,390	431,146	452,162
Minority interest		(3,091)	(1,178)	(2,694)
Total equity		447,299	429,968	449,468

Consolidated Statement of Cash Flows

	Note	Unaudited 26 Weeks Ended 30 January 2022 $ 000	Unaudited 26 Weeks Ended 31 January 2021 $ 000	Audited 52 Weeks Ended 1 August 2021 $ 000
Cash flows from operating activities				
Cash received from customers		1,727,132	1,808,006	3,425,114
Payments to suppliers and employees		(1,518,505)	(1,584,811)	(3,040,261)
COVID-19 Wage subsidy repayment		-	(67,550)	(67,550)
Income tax paid		(28,598)	(23,139)	(32,132)
Interest paid		(18,519)	(22,467)	(37,910)
Net cash flows from operating activities		161,510	110,039	247,261
Cash flows from investing activities				
Proceeds from sale of property, plant and equipment		-	104	190
Purchase of property, plant, equipment and software		(57,667)	(39,431)	(83,180)
Purchase of associate	3	(4,500)	-	-
Purchase of minority interest		(333)	-	(239)
Net cash flows from investing activities		(62,500)	(39,327)	(83,229)
Cash flows from financing activities				
Early termination of interest rate swaps		-	(6,622)	(9,767)
Lease principal repayments		(48,655)	(48,573)	(99,383)
Treasury stock dividends received		243	-	254
Dividends paid to parent shareholders		(61,032)	-	(62,678)
Dividends paid to minority shareholders		(126)	-	-
Net cash flows from financing activities		(109,570)	(55,195)	(171,574)
Net cash flow		(10,560)	15,517	(7,542)
Opening cash position		160,526	168,068	168,068
Closing cash position		149,966	183,585	160,526

Reconciliation of Operating Cash Flows

	Note	Unaudited 26 Weeks Ended 30 January 2022 $ 000	Unaudited 26 Weeks Ended 31 January 2021 $ 000	Audited 52 Weeks Ended 1 August 2021 $ 000
Profit after tax		49,188	54,242	116,210
Non-cash items				
Depreciation and amortisation expenses	4	77,495	73,550	149,303
Loss from investment in associate		324	-	-
Right of use asset impairment	13	-	625	1,582
Share based payment expense		-	72	93
COVID-19 landlord rent relief	14	(812)	-	-
Movement in deferred tax		2,651	3,960	8,219
Interest rate hedge derivative write-off		-	195	3,340
Movement in monetised derivative hedge reserve		-	(2,264)	-
Total non-cash items		79,658	76,138	162,537
Items classified as investing or financing activities				
Net loss on disposal of property, plant and equipment		440	99	637
Gain on lease terminations	15	(2,327)	(547)	(1,237)
Supplementary dividend tax credit		334	-	246
Total investing and financing adjustments		(1,553)	(448)	(354)
Changes in assets and liabilities				
Trade and other receivables		(10,309)	(1,866)	4,986
Inventories		(73,464)	(104,130)	(63,541)
Trade and other payables		151,340	93,737	14,497
Provisions		(21,419)	(907)	13,030
Income tax		(11,931)	(6,727)	(104)
Total changes in assets and liabilities		34,217	(19,893)	(31,132)
Net cash flows from operating activities		161,510	110,039	247,261

Notes to the Interim Financial Statements

1. GENERAL INFORMATION

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The interim financial statements of the Group have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (GAAP). They comply with New Zealand Equivalent to the International Accounting Standard 34 *Interim Financial Reporting* (NZIAS 34) and International Accounting Standard 34 *Interim Financial Reporting* (IAS 34) and consequently, do not include all the information required for full financial statements. These Group interim financial statements should be read in conjunction with the annual report for the 52 weeks ended 1 August 2021.

These interim financial statements have been prepared under the historical cost convention except for the revaluation of certain financial instruments (including derivative instruments). The reporting currency used in the preparation of the interim financial statements is New Zealand dollars, rounded to the nearest thousands unless otherwise stated. Certain comparative amounts have been reclassified to conform with the current period presentation.

Accounting standards
The accounting policies that materially affect the measurement of the interim financial statements have been applied on a consistent basis with those used in the audited financial statements for the 52 weeks ended 1 August 2021.

Non-GAAP financial information
The Group uses operating profit, earnings before tax and interest, unusual items and adjusted net profit to describe financial performance as it considers these line items provide a better measure of underlying business performance. These non-GAAP measures are not prepared in accordance with New Zealand Equivalent to International Financial Reporting Standards (NZIFRS) and may not be comparable to similarly titled amounts reported by other companies. The Group’s policy regarding unusual items and adjusted net profit are detailed in note 5.0.

Critical accounting judgements, estimates and assumptions
The preparation of the interim financial statements requires the Group to make judgements, estimates and assumptions that effect the reported amounts of assets and liabilities at balance date and the reported amounts of revenues and expenses during the half year. The same significant judgements, estimates and assumptions that are summarised in the audited financial statements for the 52 weeks ended 1 August 2021 were applied in the preparation of these interim financial statements.

Seasonality
The Group's revenue and profitability follow a seasonal pattern with higher sales and operating profits typically achieved in the first half of the financial year as a result of additional sales generated during the Christmas trading period. During the current half year and previous financial year these seasonal patterns have been unsettled by the impacts of COVID-19 (refer note 3).

Approval of Interim Financial Statements
These consolidated interim financial statements were approved for issue by the Board of Directors on 21 March 2022. Unless as otherwise stated, the interim financial statements have been reviewed by our Auditors, but are not audited.

3. SIGNIFICANT TRANSACTIONS AND EVENTS IN THE PERIOD

The following significant transactions and events affected the financial performance and financial position of the Group for the half year ended 30 January 2022:

Group structure
TheMarket
The Group increased its shareholding in TheMarket.com from 88.5% to 91%, when a put option was exercised in accordance with TheMarket.com share rights plan. Details of the share rights plan can be found in last year’s annual report. The Group also amalgamated 1-day Limited with TheMarket.com Limited effective from the commencement of the current half year period.

Investment in associate
In August 2021 the Group invested $4.5 million, to acquire a 26% interest in ZOOM Health Limited (ZOOM). ZOOM is a health technology company and shareholder in ZOOM Care Limited, an online pharmacy that delivers prescription medicine to patients. During the half year the Group recognised $0.3 million as a proportionate share of ZOOM’s trading losses, which reduced the carrying value of the investment to $4.2 million.

Other changes
The Group’s discontinued Diners Club (NZ) business which ceased operating in April 2020 was placed into a formal solvent liquidation during the half year and removed from the Companies Office register. There were no other changes to the Group’s company structure.

Impact of COVID-19
The half year was impacted by the outbreak of the COVID-19 Delta variant which resulted in the Group's store network being closed to customers for at least two weeks from 17 August 2021 to limit the spread of COVID-19. The Government Alert Level 4 lockdown lasted for two weeks throughout New Zealand (excluding Auckland and Northland) before restrictions were eased to Level 3 on 31 August 2021, which allowed customers to purchase products from stores using ‘click and collect’ before a further easing of restrictions to Alert Level 2 on 7 September 2021. At Alert Level 2 the Group's stores could open subject to physical distancing, mask wearing and record keeping requirements.

Northland moved to Alert Level 3 two days after the rest of New Zealand on 2 September 2021, while Auckland was held at Level 4 for a total of five weeks, and then at Alert Level 3 for a further seven weeks until 10 November 2021 before the alert levels were eased to Alert Level 3 step 2 and the Group’s Auckland stores could reopen to customers. There were also intermittent periods when parts of the Waikato and Northland returned to Level 3 restrictions during this time. The Group’s stores were closed to customers for 10,502 days (23%) of the 45,666 potential store trading days during the half year.

The impact on Group sales of the lockdowns was significant, with only two weeks of the first quarter not impacted by the COVID-19 lockdown restrictions, with sales down by $107.8 million (14.6%) compared to the same quarter last year. There was a partial recovery of the lost sales when all stores reopened in the second quarter with sales up 2.8% in the second quarter compared to the same quarter last year. However the sales rebound was subdued compared to the sales rebound the Group experienced following previous lockdowns, with sales for the half year down $78.3 million (4.3%) compared to last year.

3. SIGNIFICANT TRANSACTIONS AND EVENTS IN THE PERIOD - CONTINUED

Impact of COVID-19

Gross profit margin for half year was 34.7%, or 150 basis points lower than the previous corresponding period. Higher freight costs due to supply chain disruptions and increased online sales, up 68% compared to last year (represents 19% of total sales) were significant factors contributing to the margin reduction. Increased online sales reduced gross profit margin due to a lower margin product mix and additional freight costs associated with the online sales. The timing of the lockdowns also meant discounting was required during the first quarter to clear a build-up of winter seasonal stock accumulated during the lockdown. The combination of lower sales and the lower gross profit margin resulted in the half year gross profit of $599.6 million, being $55.8 million lower than the previous corresponding period.

Employee and other operating expenses were impacted by additional COVID-19 activity connected with online fulfilment, additional labour shifts due to close contact stand downs, distribution inefficiencies to alleviate pressure on the Auckland distribution centre, additional health and safety related spend across the network (including rapid antigen testing and deploying additional staff as store door greeters). Throughout the lockdowns the Group continued to pay its staff in full for rostered hours.

Despite the impact on half year profit with the Group's adjusted after tax profit down $63.0 million (56.7%) compared to last year, the balance sheet and operating cash flow remain solid. However there continues to be uncertainty due to COVID-19 and the latest emergence of the new Omicron COVID-19 variant. These uncertainties are factored into the key estimates and judgements that underly the impairment assessments of asset carrying values at the half year end, of which the inventory impairment review is probably the most significant of these key judgement areas.

Inventory

The ongoing disruption to worldwide supply chains through the half year made managing stock flow challenging causing some product shortages. In response to the disruptions the Group increased inventory levels, with inventory up $32.9 million to $530.6 million compared to the last half year to improve availability of key continuity and seasonal product lines. The timing of Chinese New Year falling just after balance date and two weeks earlier than the last year also contributed to the higher inventory levels, advancing the timing of seasonal inventory purchases and is reflected in higher ‘goods in transit’ which are $27.6 million higher than last year. The recent build-up of inventory levels heading into the next half year, improves the inventory average age profile and puts the Group in a better position to cope with ongoing supply chain disruptions.

The Group’s inventory impairment provisions (refer note 7) represent 4.3% of total inventory compared to 5.3% at July 2021 and were calculated after considering the trading outlook and the quality and age of inventory held at balance date.

Liquidity

The Group adopted a new liquidity policy last year which sets liquidity buffer parameters (refer note 16) to provide balance sheet resilience against adverse events. During this period of uncertainty caused by COVID-19 the Group continuously monitors trading forecasts and projected cashflows to assess policy compliance.

Cloud Computing Arrangements

In March 2021, the International Financial Reporting Interpretation Committee (IFRIC) issued an agenda decision clarifying the accounting treatment for software implementation costs in cloud computing arrangements. IFRIC concluded that costs incurred in configuring or customising software in cloud computing arrangements can be recognised as intangible assets only if the activities create an intangible asset that the Group controls. Costs that do not result in intangible assets are expensed as incurred, unless they are paid to the suppliers of the cloud-based software to significantly customise the cloud-based software for the Group, in which case the costs paid upfront are recorded as prepayments and amortised over the expected terms of the cloud computing arrangements.

The Group has capitalised costs incurred in configuring and customising supplier’s software in cloud computing arrangements as intangible software assets, as the Group considered that it would benefit from the costs to implement the cloud-based software over the expected terms of the cloud computing arrangements.

The Group has been reviewing its more than 200 different cloud-based software arrangements, which have an approximate combined carrying value at balance date of between $65 million to $75 million to determine the impact of the IFRIC decision. This is a complex area and the process of evaluating and reassessing the nature of the software costs incurred and understanding the Group's contractual rights in relation to customisation and configuration expenditure is taking a considerable amount of time. At the time of finalising the 2022 half-year financial statements the review process is still continuing and it is anticipated that the Group not have a clear understanding of the situation until the end of its financial year. We have continued to capitalise costs that have occurred since the start of the current financial year in line with the Group’s previously approved accounting policies.

If the Group is required to revise its accounting policy to comply with the IFRIC decision, the change will require a retrospective restatement of prior period financial statements. Whilst not impacting actual cash flows the change could reduce intangible assets and associated amortisation, increase operating expenses, and reclassify the relevant spend from an investing to an operating cash flow. The change may also result in the recognition of prepayments or an adjustment to opening retained earnings.

4. SEGMENT INFORMATION

Operating performance	Note	REVENUE (Unaudited) 26 Weeks Ended 30 January 2022 $ 000	REVENUE (Unaudited) 26 Weeks Ended 31 January 2021 $ 000	REVENUE (Audited) 52 Weeks Ended 1 August 2021 $ 000	OPERATING PROFIT (Unaudited) 26 Weeks Ended 30 January 2022 $ 000	OPERATING PROFIT (Unaudited) 26 Weeks Ended 31 January 2021 $ 000	OPERATING PROFIT (Audited) 52 Weeks Ended 1 August 2021 $ 000
The Warehouse		895,413	967,300	1,804,861	43,960	122,616	187,621
Warehouse Stationery		122,047	136,578	274,646	9,680	17,154	34,325
Warehouse segment		1,017,460	1,103,878	2,079,507	53,640	139,770	221,946
Noel Leeming		582,746	593,176	1,128,184	29,787	33,069	64,879
Torpedo7		97,462	84,855	158,706	2,831	5,221	3,287
TheMarket		33,037	29,292	54,455	(11,985)	(9,237)	(20,704)
Other Group operations		3,586	3,977	7,141	(8,734)	(15,799)	(28,803)
Inter-segment eliminations		(4,307)	(6,923)	(13,392)			
Group		1,729,984	1,808,255	3,414,601	65,539	153,024	240,605
Adjustment for NZIFRS 16 (Leases)	15				21,758	20,390	40,509
Operating profit					87,297	173,414	281,114
Unusual items	5				-	(79,036)	(86,955)
Earnings before interest and tax					87,297	94,378	194,159
Operating margin							
The Warehouse (%)					4.9	12.7	10.4
Warehouse Stationery (%)					7.9	12.6	12.5
Noel Leeming (%)					5.1	5.6	5.8
Torpedo7 (%)					2.9	6.2	2.1
Total Retail Group (%)					3.8	8.5	7.0

Operating segments
The Group has four operating segments trading in the New Zealand retail sector and an online marketplace (includes 1-day). These segments form the basis of internal reporting used by senior management and the Board of Directors to monitor and assess performance and assist with strategy decisions. The Group has disclosed its segment operating profit performance that excludes the impacts of NZIFRS 16 Leases, which is consistent with internal reporting and the way the Group monitors financial performance.

Each of the four main retail segments represent a distinct retail brand that operate throughout New Zealand. Customers can purchase product from the retail chains either online or through the Group's physical retail store network. At period end the Group's physical store network consists of 90 The Warehouse stores, 70 Warehouse Stationery stores, 71 Noel Leeming stores and 22 Torpedo7 stores. The Warehouse predominantly sells general merchandise and apparel, Noel Leeming sells technology and appliance products, Torpedo7 sells outdoor and sporting equipment and Warehouse Stationery sells stationery products.

Other Group operations include a property company, a chocolate factory and the residual cost of unallocated support office functions.

Capital expenditure and depreciation	Note	DEPRECIATION & AMORTISATION (Unaudited) 26 Weeks Ended 30 January 2022 $ 000	DEPRECIATION & AMORTISATION (Unaudited) 26 Weeks Ended 31 January 2021 $ 000	DEPRECIATION & AMORTISATION (Audited) 52 Weeks Ended 1 August 2021 $ 000	CAPITAL EXPENDITURE (Unaudited) 26 Weeks Ended 30 January 2022 $ 000	CAPITAL EXPENDITURE (Unaudited) 26 Weeks Ended 31 January 2021 $ 000	CAPITAL EXPENDITURE (Audited) 52 Weeks Ended 1 August 2021 $ 000
Warehouse segment		56,464	53,488	108,270	48,787	30,033	64,703
Noel Leeming		13,471	13,186	26,692	2,239	6,317	11,812
Torpedo7		4,440	4,494	9,097	2,768	891	2,722
TheMarket		2,198	1,500	3,448	2,072	2,638	5,462
Other Group operations		922	882	1,796	1,512	109	256
Total		77,495	73,550	149,303	57,378	39,988	84,955
					(Note:11)	(Note:11)	(Note:11)
Comprising							
Property, plant, equipment and software	11	30,294	26,900	55,211			
Right of use assets	13	47,201	46,650	94,092			
Total		77,495	73,550	149,303			

4. SEGMENT INFORMATION - (Continued)

Balance sheet information	Note	TOTAL ASSETS (Unaudited) As at 30 January 2022 $ 000	(Unaudited) As at 31 January 2021 $ 000	(Audited) As at 1 August 2021 $ 000	TOTAL LIABILITIES (Unaudited) As at 30 January 2022 $ 000	(Unaudited) As at 31 January 2021 $ 000	(Audited) As at 1 August 2021 $ 000
Warehouse segment		560,009	504,396	477,210	433,579	384,163	353,595
Noel Leeming		206,973	203,682	189,241	209,056	176,272	149,077
Torpedo7		59,799	43,115	52,281	23,208	16,685	20,761
TheMarket		21,821	21,099	21,288	9,627	7,605	9,009
Other Group operations		91,133	84,205	85,062	1,307	868	2,023
Operating assets / liabilities		939,735	856,497	825,082	676,777	585,593	534,465
Unallocated assets / liabilities							
Cash and borrowings	16	149,966	183,585	160,526	-	-	-
Derivative financial instruments	17	31,536	77	10,147	-	31,742	4,353
Right of use assets / Lease liabilities	13, 14	699,852	751,380	736,524	850,926	910,148	892,191
Intangible goodwill and brands		72,956	72,956	72,956	-	-	-
Taxation		80,957	97,211	86,120	-	4,255	10,878
Total		1,975,002	1,961,706	1,891,355	1,527,703	1,531,738	1,441,887

5. ADJUSTED NET PROFIT

Adjusted net profit reconciliation	Note	(Unaudited) 26 Weeks Ended 30 January 2022 $ 000	(Unaudited) 26 Weeks Ended 31 January 2021 $ 000	(Audited) 52 Weeks Ended 1 August 2021 $ 000
Adjusted net profit		48,034	111,013	175,515
Less: Unusual items				
Restructuring costs - Agile		-	(11,291)	(16,065)
Ineffective hedge derivatives		-	(195)	(3,340)
Repayment of COVID-19 wage subsidy		-	(67,550)	(67,550)
Unusual items before taxation		-	(79,036)	(86,955)
Adjustment for NZIFRS 16 (Leases)	15	3,345	1,191	2,012
Income tax relating to above items		(937)	21,797	23,784
Income tax relating to prior year building disposals		-	-	3,295
Unusual items after taxation		2,408	(56,048)	(57,864)
Net profit from continuing operations attributable to shareholders of the parent		50,442	54,965	117,651

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

The Group did not classify any items as unusual during the half year.

2021 COVID-19 Wage subsidy
In December 2020 the Group voluntarily repaid the Government COVID-19 wage subsidy it received in March 2020. The Group classified both the receipt and offsetting repayment of the COVID-19 wage subsidy which spanned two different financial years as unusual items.

2021 Restructuring costs
The restructuring costs relate to professional fees and redundancy costs incurred as part of the Group's transition to an Agile way of working completed last year.

Notes to the Interim Financial Statements - continued

6. DIVIDENDS

Dividends paid	CENTS PER SHARE (Unaudited) 26 Weeks Ended 30 January 2022	(Unaudited) 26 Weeks Ended 31 January 2021	(Audited) 52 Weeks Ended 1 August 2021	DIVIDENDS PAID (Unaudited) 26 Weeks Ended 30 January 2022 $ 000	(Unaudited) 26 Weeks Ended 31 January 2021 $ 000	(Audited) 52 Weeks Ended 1 August 2021 $ 000
Prior year final dividend	17.5	-	-	60,698	-	-
Special dividend	-	-	5.0	-	-	17,342
Interim dividend	-	-	13.0	-	-	45,090
Total dividends paid	17.5	-	18.0	60,698	-	62,432

Subsequent events
The Group's dividend policy, after it was amended last year, is to distribute at least 70% of the Group's full year adjusted net profit, at the discretion of the Board and subject to trading performance, market conditions and liquidity requirements. In compliance with this policy the Board declared a fully imputed interim dividend of 10.0 cents per ordinary share on 21 March 2022 to be paid on 26 April 2022 to all shareholders on the Group's share register at the close of business on 6 April 2022. Based on the Group's dividend policy the interim dividend represents a payout ratio of 72%.

7. INVENTORIES

Inventories	(Unaudited) As at 30 January 2022 $ 000	(Unaudited) As at 31 January 2021 $ 000	(Audited) As at 1 August 2021 $ 000
Finished goods	449,569	452,249	413,352
Inventory provisions	(19,185)	(27,162)	(21,966)
Retail stock	430,384	425,087	391,386
Goods in transit from overseas	100,231	72,653	65,765
Inventory	530,615	497,740	457,151

8. TRADE AND OTHER RECEIVABLES

Trade and other receivables	(Unaudited) As at 30 January 2022 $ 000	(Unaudited) As at 31 January 2021 $ 000	(Audited) As at 1 August 2021 $ 000
Trade receivables	39,313	43,215	36,193
Prepayments	15,453	13,122	12,528
Rebate accruals and other debtors	34,820	29,792	30,556
Total trade and other receivables	89,586	86,129	79,277

9. TRADE AND OTHER PAYABLES

Trade and other payables	(Unaudited) As at 30 January 2022 $ 000	(Unaudited) As at 31 January 2021 $ 000	(Audited) As at 1 August 2021 $ 000
Local trade creditors and accruals	353,832	307,257	266,486
Foreign currency trade creditors	113,332	122,514	93,524
Goods in transit creditors	76,195	24,077	17,883
Capital expenditure creditors	2,728	1,807	3,018
Goods and services tax	7,884	5,365	10,155
Reward schemes, lay-bys, Christmas club deposits and gift vouchers	23,353	20,798	22,036
Payroll accruals	22,986	19,826	23,477
Total trade and other payables	600,310	501,644	436,579

Notes to the Interim Financial Statements - continued

10. PROVISIONS

Provisions	(Unaudited) As at 30 January 2022	(Unaudited) As at 31 January 2021	(Audited) As at 1 August 2021
	$ 000	$ 000	$ 000
Current liabilities	55,457	63,029	74,515
Non-current liabilities	21,010	20,920	23,371
Total provisions	76,467	83,949	97,886
Provisions consist of:			
Employee entitlements	62,305	69,561	83,270
Make good provision	8,704	8,718	9,175
Sales returns provision	5,458	5,670	5,441
Total provisions	76,467	83,949	97,886

11. PROPERTY, PLANT, EQUIPMENT AND COMPUTER SOFTWARE

Property, plant, equipment and computer software	Note	(Unaudited) As at 30 January 2022	(Unaudited) As at 31 January 2021	(Audited) As at 1 August 2021
		$ 000	$ 000	$ 000
Property, plant and equipment		199,019	195,839	194,619
Computer software	12	116,339	76,789	94,035
Carrying amount		315,358	272,628	288,654
Movement in property, plant, equipment and software				
Carrying amount at the beginning of the period		288,654	259,741	259,741
Capital expenditure	4	57,378	39,988	84,955
Depreciation and amortisation	4	(30,294)	(26,900)	(55,211)
Disposals		(380)	(201)	(831)
Carrying amount at the end of the period		315,358	272,628	288,654

12. INTANGIBLE ASSETS

Intangible assets	Note	(Unaudited) As at 30 January 2022	(Unaudited) As at 31 January 2021	(Audited) As at 1 August 2021
		$ 000	$ 000	$ 000
Computer software	11	116,339	76,789	94,035
Brands		15,500	15,500	15,500
Goodwill		57,456	57,456	57,456
Net book value		189,295	149,745	166,991

The Group performs a detailed impairment assessment of intangible assets prior to the end of each financial year and at each interim reporting date considers if there are any indicators of impairment which could have a bearing on the impairment assessments. The Group's interim review did not identify any significant indicators of impairment in respect of the cash generating units connected with the Group's material intangible assets.

13. RIGHT OF USE ASSETS

Right of use assets	Note	(Unaudited) As at 30 January 2022	(Unaudited) As at 31 January 2021	(Audited) As at 1 August 2021
		$ 000	$ 000	$ 000
Movement in right of use assets				
Carrying amount at the beginning of the period		736,524	774,175	774,175
Additions	14	11,621	17,285	55,494
Depreciation	4	(47,201)	(46,650)	(94,092)
Reassessment of lease terms	14	(1,075)	9,182	5,271
Impairments	4	-	(625)	(1,582)
Lease surrenders and terminations		(17)	(1,987)	(2,742)
Carrying amount at the end of the period		699,852	751,380	736,524

14. LEASE LIABILITIES

Lease liabilities	Note	(Unaudited) As at 30 January 2022 $ 000	(Unaudited) As at 31 January 2021 $ 000	(Audited) As at 1 August 2021 $ 000
Movement in lease liabilities				
Carrying amount at the beginning of the period		892,191	934,788	934,788
Additions	13	11,621	17,285	55,494
Interest for the period	15	18,413	19,199	38,497
Reassessment of lease terms	13	(1,075)	9,182	5,271
COVID-19 landlord rent relief		(812)	-	-
Lease repayments		(67,068)	(67,772)	(137,880)
Lease surrenders and terminations		(2,344)	(2,534)	(3,979)
Balance at the end of the period		850,926	910,148	892,191
Lease liability maturity analysis				
Within one year		96,782	96,287	97,812
One to two years		90,343	93,377	93,118
Two to five years		238,966	247,883	254,649
Beyond five years		424,835	472,601	446,612
Total lease liabilities		850,926	910,148	892,191
Current liabilities		96,782	96,287	97,812
Non-current liabilities		754,144	813,861	794,379
Total lease liabilities		850,926	910,148	892,191

15. ADJUSTMENT FOR NZIFRS 16 (LEASES)

Adjustment for NZIFRS 16 (Leases)	Note	(Unaudited) As at 30 January 2022 $ 000	(Unaudited) As at 31 January 2021 $ 000	(Audited) As at 1 August 2021 $ 000
Pre NZIFRS 16 Rent		66,632	67,118	134,946
Right of use asset amortisation	13	(47,201)	(46,650)	(94,092)
Right of use asset impairment		-	(625)	(1,582)
Gain on lease terminations		2,327	547	1,237
Impact on operating profit	4	21,758	20,390	40,509
Lease liability interest	14	(18,413)	(19,199)	(38,497)
Impact on net profit before tax	5	3,345	1,191	2,012

16. BORROWINGS

Net cash	(Unaudited) As at 30 January 2022 $ 000	(Unaudited) As at 31 January 2021 $ 000	(Audited) As at 1 August 2021 $ 000
Cash on hand and at bank	149,966	183,585	160,526
Committed bank credit facilities at balance date are:			
Committed and unused bank debt facilities	330,000	330,000	330,000
Liquidity buffer	479,966	513,585	490,526

The Group adopted a new liquidity policy last year to provide balance sheet resilience year in response to the COVID-19 pandemic. The new policy, which remains unchanged is to maintain a liquidity buffer of between $350 million to $450 million. This policy permits the liquidity buffer to exceed the policy range where it is caused by temporary cash flow fluctuations associated with the timing of creditor payments.

The Group complied with the debt ratios and restrictive covenants stipulated in the Group's negative pledge arrangement with its banks throughout the half year. Details regarding these covenants can be found in the 2021 Annual Report.

Sustainability-Linked Loans
During the half year the Group restructured $140 million of its committed bank credit facilities to be Sustainability-Linked Loans (SLLs). The facility fee pricing for the SLLs are linked to the achievement of mutually agreed sustainability targets that meet the requirements of the Loan Market Association's Sustainability Linked Loan Principles (2021). The five sustainability targets are as follows:

1. 50% of brands that are directly owned by The Warehouse and Warehouse Stationery must have sustainable packaging that is compostable, or recyclable solely at New Zealand kerbside or in store by July 2025.
2. All Tier 2 Sources for at least 50% of Tier 1 Suppliers will comply with The Warehouse Group's Labour & Environmental Policy by July 2025.
3. Reduce absolute Scope 1 and Scope 2 greenhouse gas emissions by at least 5% for each year of the loan against the July 2020 Baseline.
4. Gender Pay Equity: Achieve 100% pay equity across its overall workforce by July 2025.
5. Gender Representation: The board, executive team, or those who directly report to the executive team, are 50% women by July 2025.

The targets for SLLs will be remeasured and independently audited at the end of each of the next four financial years to determine if the targets have been achieved. The facility pricing is then reduced to a maximum of 8 basis points if all the sustainability targets are achieved and increased by the same if the targets are not met.

17. DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments	(Unaudited) As at 30 January 2022 $ 000	(Unaudited) As at 31 January 2021 $ 000	(Audited) As at 1 August 2021 $ 000
Foreign exchange contracts			
Current assets	31,536	77	8,837
Non-current assets	-	-	1,310
Current liabilities	-	(31,742)	(4,353)
Total derivative financial instruments	31,536	(31,665)	5,794
Classified as:			
Cash flow hedges	21,313	(15,824)	8,572
Fair value hedges	10,223	(15,841)	(2,778)
	31,536	(31,665)	5,794

The Group continues to manage its foreign exchange risks in accordance with the policies and parameters detailed in the 2021 Annual Report.

The Group’s foreign exchange contracts at balance date hedge forecast inventory purchases priced in US dollars for the next 12 months, although the Group’s treasury policy does permit foreign exchange hedging beyond 12 months and up to 18 months when certain criteria are met. The following table lists the key inputs used to determine the fair value of the Group's foreign exchange contracts and hedge levels at balance date.

US Dollar forward contracts			
Notional amount (NZ$000) 0 to 12 months	375,193	378,767	382,508
Notional amount (NZ$000) 12 to 18 months	-	-	27,578
Average contract rate ($)	0.7063	0.6589	0.7049
Spot rate used to determine fair value ($)	0.6538	0.7191	0.6966
Forecast next twelve month USD hedge level (percentage)	69.8	71.7	70.9

Fair value
The Group’s derivatives are not traded in an active market which means quoted prices are not available to determine the fair value. To determine the fair value the Group uses valuation techniques which rely on observable market data. The fair value of forward exchange contracts are determined using the forward exchange market rates at the balance date. For accounting purposes (NZIFRS 13) these valuations are deemed to be Level 2 fair value measurements as they are not derived from a quoted price in an active market but rather, a valuation technique that relies on other observable market data.

18. COMMITMENTS

Commitments	(Unaudited) As at 30 January 2022 $ 000	(Unaudited) As at 31 January 2021 $ 000	(Audited) As at 1 August 2021 $ 000
Capital commitments			
Capital expenditure contracted for at balance date but not recognised as liabilities is set out below:			
Within one year	23,898	11,228	28,759

19. RELATED PARTIES

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

20. CONTINGENT LIABILITIES

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