

the warehouse //
where everyone gets a bargain



warehouse
stationery



Noel Leeming

// torpedo**7**

**THE
WAREHOUSE
GROUP
LIMITED
ANNUAL
REPORT
2013**

WE ARE THE BRANDS THAT WE REPRESENT

**Welcome to TW Group.
“Anywhere, Any Way”
– our brands are
for everybody
in New Zealand**

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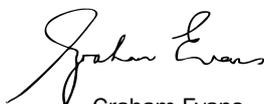
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Annual Meeting

22 November

The Annual Meeting of shareholders of the company will be held in the Guineas Ballroom, Ellerslie Event Centre, 80–100 Ascot Avenue, Greenlane East, Auckland, New Zealand, on Friday 22 November 2013 commencing at 10.00am.

This Annual Report is dated 11 October 2013 and is signed on behalf of the Board by:



Graham Evans
Chairman



Keith Smith
Deputy Chairman

CHAIRMAN AND CEO'S REPORT



Our strategy continues to evolve and comprises a number of key focus areas including: keeping the 'Red Core' strong, growing 'Non-Red' to be as large as 'Red', being the leading Multichannel retailer in New Zealand and leveraging our Group competencies scale to ensure that we deliver positive long-term results for our shareholders.

While it is still early days, we have made good progress reshaping The Warehouse Group ('TW Group'), which is a very different company compared to what it was two years ago. FY13 saw the successful acquisition of Noel Leeming, our investment in Torpedo7 and the further expansion of our multichannel businesses. Sales growth continued in our core Red Sheds business which recorded its tenth consecutive quarter of positive same-store sales.

It is pleasing to report Group sales for the year were \$2,239.5 million, up 29.3% and adjusted net profit after tax¹ increased 13.1% to \$73.7 million. Reported net profit after tax was \$144.7 million, an increase of 61.1% compared to \$89.8 million last year, primarily due to gains on the disposal of property.

The Warehouse (Red Sheds)

The Warehouse reported sales for the full year of \$1,591.1 million, an increase of 4.4% or \$67.0 million compared to last year and up \$128.0 million since FY11. Same-store sales increased 2.0% in the year with the Red Sheds now recording 10 quarters of positive same-store sales.

The major drivers of sales growth in FY13 have been: the improved performance from the Auckland stores with three new stores (Silverdale, Royal Oak and Mt Roskill), the completion of 28 store refits by the end of FY13, and strong performances in our Home, Consumer Electronics, Baby, Beauty and Confectionery categories.

We introduced a number of international technology and appliance brands into the Red Sheds late in the second half of the year such as *Compaq*, *Acer*, *Sony*, *Uniden*, *Kambrook*, and *Hoover*. We were pleased to launch a range of products from leading international brand *Samsung* in September 2013.

FY13 delivered a solid result with positive sales momentum, the introduction of a number of leading international technology and appliance brands and a critical mass of refitted stores. Operating profit for the year was up 5.3% to \$85.2 million, which indicates we are starting to head in the right direction; however, it is still early days on our journey.

Warehouse Stationery (Blue Sheds)

Warehouse Stationery sales were \$231.8 million, an increase of 12.2% compared to last year. Same-store sales increased 2.8% for the year, with the Blue Sheds delivering 16 quarters of same-store sales growth.

Warehouse Stationery underwent a significant rebranding in July which will help bring to life the brand positioning: 'Work, Study, Create and Connect'. The year saw another five stores opened as part of the continued roll-out of a nationwide store network with operating profit for the year up 4.8% to \$10.3 million.

Dividend

The Directors have declared a final dividend of 5.5 cents per share, representing 89.0% of adjusted earnings, which will be paid on 12 December 2013 with the record date being 29 November 2013.

Strategy

The Group is significantly different to a year ago with the acquisition of Noel Leeming and Torpedo7 and our Multichannel growth initiatives. We will continue to invest ahead of the curve in our Multichannel businesses and are excited by the growth opportunities we have identified. In line with our strategy we will also proceed with further investment in our stores and our people in FY14.

Our strategic focus for FY14 will be keeping the 'Red Core' strong, growing 'Non-Red' to be as large as 'Red', being the leading Multichannel retailer in New Zealand while leveraging our Group competencies and scale to ensure that we deliver positive long-term results for our shareholders. To assist in clarity for our internal and external audiences, we will now refer to the business of the wider group as 'TW Group' rather than use 'The Warehouse Group' which is so tightly linked to the retail brand of our core Red Sheds business.

Outlook

We are encouraged by the momentum we have achieved from the Red Sheds and Blue Sheds and the contribution already made by, and the opportunities arising from, our recent acquisitions and investments.

Over the past 12 months, we have seen quarterly retail sales showing improving positive growth. We believe we will see gradual ongoing improvements in consumer confidence and spending further supporting the recent retail sales growth trend.

As our earnings are significantly influenced by Christmas trading performance it is too early to provide specific earnings guidance. The key elements of the Group's strategic plan should ensure adjusted net profit after tax in FY14 is above that recorded in FY13.

We would like to thank everyone who supports our businesses: our customers and suppliers, our shareholders and our dedicated and passionate teams across the country.



Graham Evans
Chairman



Mark Powell
Group Chief Executive Officer

Noel Leeming

Noel Leeming's results from continuing operations for the eight months under The Warehouse Group ownership were sales of \$390.7 million, operating profit of \$11.0 million and a same-store sales growth of 7.0%. We were very pleased with the performance of the business after merging Bond + Bond with Noel Leeming, with Noel Leeming continuing to perform ahead of our expectations.

Torpedo7 and Multichannel

A 51.0% stake in Torpedo7 Group was acquired on 1 April 2013. During the first four months under our ownership, Torpedo7 sales were \$24.2 million with EBIT of \$0.7M, in line with our expectations. A strategic plan has been developed targeting significant growth for Torpedo7 which resulted in the recent acquisition of No1 Fitness, New Zealand's leading multichannel fitness equipment retailer.

1. Adjusted net profit after tax is a non-GAAP measure. A reconciliation of adjusted net profit to reported net profit is detailed in note 13 on page 51 of the financial statements. Certain transactions such as the sale of properties, acquisition costs and the release of warranty provisions can make the comparisons of profits between periods difficult. The Group monitors adjusted net profit as a key indicator of performance and uses it as the basis for determining dividends and believe it helps investors to understand what is happening in the business.

THE BOARD



GRAHAM EVANS

Chairman and Independent Non-Executive Director

TERM OF OFFICE:

Appointed Director 1 July 1998, last re-elected 2010 Annual Meeting

BOARD COMMITTEES:

Member of the Audit Committee, Corporate Governance Committee, Disclosure Committee and People and Remuneration Committee

Graham brings broad experience to the Board, particularly in the areas of business operations and development, strategic direction and performance improvement. He has more than 40 years' experience in the New Zealand retail sector. As a previous Managing Director of Woolworths NZ Limited for 16 years, he is able to share his considerable retailing knowledge and leadership capability. In addition to his role as Chairman of The Warehouse Group Limited, he is Chairman of Multichem Group Limited and associated companies.



SIR STEPHEN TINDALL

KNZM, Dip. Mgt, FNZIM, HonD, DCom Honoris Causa

Founder and Non-Executive Director

TERM OF OFFICE:

Appointed Director 10 June 1994, last re-elected 2010 Annual Meeting

BOARD COMMITTEES:

Member of the Disclosure Committee and People and Remuneration Committee

Sir Stephen founded The Warehouse in 1982 and grew the company into a billion-dollar business before stepping down as Managing Director in 2001. His vision for creating an organisation to provide support for worthwhile initiatives benefiting New Zealand and New Zealanders resulted in the establishment of The Tindall Foundation promoting a 'hand up' rather than a 'hand out' philosophy. Sir Stephen has seen many personal honours and awards come his way. In August 2009 he was bestowed the accolade of a knighthood in recognition of his work with New Zealand businesses and the community. He has helped ordinary Kiwis reach their potential and is a true leader across the spheres of business, community and the environment. Through his investment business K1W1, Sir Stephen has invested in over 100 New Zealand export orientated technology companies with a goal to help New Zealand companies thrive on the world stage.

Sir Stephen appointed Robert Tindall to be his alternate Director effective 1 July 2011.



KEITH SMITH

BCom, FCA

Deputy Chairman and Independent Non-Executive Director

TERM OF OFFICE:

Appointed Director 10 June 1994, last re-elected 2011 Annual Meeting

BOARD COMMITTEES:

Chairman of the Disclosure Committee, Member of the Audit Committee and People and Remuneration Committee

Keith has been involved with The Warehouse since Sir Stephen opened his first store in 1982, providing accounting, tax and corporate advice and was Chairman from 1995 to May 2011. He has a long-standing record of leadership as a director and advisor to companies in a diverse range of industries, including the energy sector, rural services, printing, media, meat by-products, tannery processing and exporting. He brings considerable experience and governance expertise to his role as Deputy Chairman of the Board. He is Chairman of listed companies Goodman (NZ) Limited (the Manager of Goodman Property Trust) and is a director of Mighty River Power, Tourism Holdings Limited and several other private companies. Keith was previously a senior partner in the national accounting practice BDO. He is a past President of The New Zealand Institute of Chartered Accountants.



ANTONY (TONY) BALFOUR
BCom

Independent Non-Executive Director

TERM OF OFFICE:

Appointed Director 15 October 2012, elected 2012 Annual Meeting

Tony has extensive global retail and e-commerce experience with a strong track record in a diverse range of industries. Most recently he was General Manager (Markets) for Icebreaker Clothing with responsibility for the company's global business units in New Zealand, Australia, USA, Canada, Europe and Asia as well as the development of the company's rapidly growing e-commerce and retail business units. Prior experience includes senior roles in Monster.com and Seek.com, both successful online recruitment sites. Tony also spent nine years at Nike in senior general management roles in the USA, Australia and Asia Pacific regions. Since 2009 he has been a director of Silver Fern Farms Limited, New Zealand's largest meat company.

JANINE SMITH
BCom MPhil (Hons 1st Class)

Independent Non-Executive Director

TERM OF OFFICE:

Appointed Director 3 August 2006, last re-elected 2012 Annual Meeting

BOARD COMMITTEES:

Chair of the Corporate Governance Committee and Chair of the People and Remuneration Committee

Janine brings to the Board wide ranging knowledge and expertise as a result of her experience as a CEO and director with companies in the commercial, arts, and education sectors, both in New Zealand and overseas. She has 15 years' experience in the food and manufacturing industries. She is currently Chair of AsureQuality Limited, a director of Steel and Tube Holdings Ltd and Kensington Swan Legal and a Principal of the Boardroom Practice Limited. Former directorships include Bank of New Zealand, Kordia Group, Airways Corporation, McLarens Young NZ, Venture Taranaki and Auckland Philharmonia Orchestra. She is also involved in advisory boards in the tertiary education sector and is an alumna of the London Business School and the University of Auckland and is a member of the Institute of Directors.



EDUARD (TED) VAN ARKEL
FNZIM

Independent Non-Executive Director

TERM OF OFFICE:

Appointed Director 1 July 2011, elected 2011 Annual Meeting

BOARD COMMITTEES:

Member of the Audit Committee and the People and Remuneration Committee

Ted possesses a strong retail background and director experience across a broad range of industries. He is a professional director who has more than 40 years' experience in the retail and wholesale sectors and has been Chairman or a director of a large number of public and private companies. Currently Chairman of Restaurant Brands (NZ) Limited, Health Benefits Limited and Unitec Institute of Technology, Ted is also a director of Abano Healthcare Group Limited and several other private companies. Prior to becoming a professional director he was Managing Director of Progressive Enterprises Limited.



JAMES OGDEN
BCA (Hons), FCA, FinstD

Independent Non-Executive Director

TERM OF OFFICE:

Appointed Director 4 August 2009, last re-elected 2012 Annual Meeting

BOARD COMMITTEES:

Chairman of the Audit Committee and Member of the Disclosure Committee

James brings strong financial expertise to the Board and director experience across a broad range of industries. He has had a distinguished career as an investment banker for eleven years, six years as Country Manager for Macquarie Bank and five years as a director of Credit Suisse First Boston. James has also worked in the New Zealand dairy industry in chief executive and finance roles for eight years. In addition to his role as a director of The Warehouse Group Limited, he is a director of Vehicle Testing Group Limited, Summerset Group Limited and Seaworks Limited. Former directorships include NZ Post Limited, Kiwibank Limited, NZX-listed Powerco Limited and Capital Properties New Zealand Limited.





“Kiwis rely on us to be their ‘House of Bargains’ and the ‘Home of Essentials’”

Eloise Esmitz
The Warehouse, Albany

the warehouse //
where everyone gets a bargain

Everything we do is about delivering New Zealanders great value on the essentials they need and the best bargains on the items they want. Delivering on this customer proposition earns us our position and reputation as New Zealand's leading non-food retailer. With the growth of our Multichannel offer, we're also making sure customers can shop with us "Anywhere, Any Way".

WE ARE THE 'HOUSE OF BARGAINS' AND THE 'HOME OF ESSENTIALS'

The 'Red Sheds' have now delivered 10 consecutive quarters of positive same-store sales. While early in our turnaround journey we believe our strategy will keep the 'Red Core' strong.

We have six key result areas:

1. A clear Brand Positioning and Price and Promotion Framework
2. Our 'Way of Working' Framework
3. The Store Experience
4. Category Strategies and Margin Dollar Growth
5. Community and Environment
6. Multichannel and Direct Customer Engagement

Brand positioning and Price and Promotion framework

We are the 'House of Bargains' and the 'Home of Essentials'. Our price leadership proposition is crucial to maintaining our position as the 'Home of Essentials'. This means that we strive to offer the best price and quality at the lowest opening price points for everyday essentials – and that Kiwis can trust us to have these in every store every day. We will continue to bring excitement and variety to our customers through a combination of Wow deals, Branded Imports and promotions such as our Dollar Deals.

Improving the quality of our products is fundamental to us being the 'House of Bargains' and 'Home of Essentials'. We are also focused on ensuring our product quality is fit for purpose at each of the pricing point levels in our framework of 'basic, better, best'.

An integral part of improving quality is how we do business with our domestic and international suppliers. We have driven a number of initiatives within our supply chain underpinning our increased expectations and standards for the quality of the products we buy. At the same time we continue our ethical sourcing practices and programme of auditing the factories from where we purchase products. This year we implemented a new pre-qualification policy to ensure that all factories meet our required standards before we will commence trading. We have a long-held commitment to a robust ethical sourcing process.



28
stores
refitted



10 QUARTERS of positive same-store sales growth



“We are customer led, store focused and people centred”

Clear ‘Way of Working’ framework

Our team members are the face of our brand to our customers. Therefore it’s important that we continue to embed our clear ‘Way of Working’ framework that sets clear expectations for our 7,000 team members to know what is expected of them and how important they are in meeting the needs of our customers. Equally important, our clear ‘Way of Working’ framework empowers them to make decisions that ensure we are truly a customer led, store focused and people centred culture.

We want our customers to know that they are getting great prices

and quality, in a great store, with the help they need. This year we introduced ‘Love your Customer’ – our new revolutionary approach to customer service. This significant investment saw more than 5,500 members of our team completing more than 400 workshops in less than three months. We also embedded our ‘Selling Smarter’ programme targeting increased product knowledge and sales capability within the important jewellery and technology service roles.

It is important that we offer great retailing career pathways and grow our team so we have a strong pipeline of talent throughout the business. We developed and rolled out new job-based training modules, completely modernising our training framework. Our Store Manager Development Programme continues to deliver talented Assistant Store Managers into the business, bolstering the strength of our management group and providing a significant pool of future leaders to the business. We know we have dedicated and committed teams throughout the business and are pleased to see their engagement increasing significantly over the last two years.

Store experience: execution and rejuvenation

This year we continued the programme of rejuvenating our stores to deliver a contemporary shopping experience and sales growth. We have targeted investment and increased our footprint in the Auckland regional catchment with new stores in Silverdale, Royal Oak and Mt Roskill and we look forward to a new store opening in October in Takanini. The ongoing programme of internal refits and external modernisation saw 28 stores in the network refitted. We’re continuing this investment programme with more than 20 internal refits planned for the next financial year.

Our ‘Working Smarter’ instore programme has focused on improving efficiency in three key areas: checkouts, ticketing, and night fill. As our teams have improved execution instore we’ve seen a shift in some of our key measures. We’ve seen a reduction in customer complaints and abandonment. As we’ve improved how we operate we have also invested in stock to ensure product availability throughout the store network.

Category strategies and margin dollar growth

Delivering great products at the right price across all our categories is where we bring our core customer value proposition together – and really deliver on being the ‘House of Bargains’ and the ‘Home of Essentials’. Our category strategies have resulted in pleasing growth in consumer electronics where the addition of great new brands has strengthened the breadth of our offer in the ‘better’ and ‘best’ areas. This year we introduced leading international technology and appliance brands *Sony*, *Compaq*, *Uniden*, *Acer*, *Kambrook* and *Hoover*. In September 2013, we added *Samsung* to our line-up.

We will continue to strengthen our position in the technology category and expect the digital switchover in the North Island to add further growth in this category in FY14. Our house brand, *Veon*, continues its success and is now one of the largest selling TV brands in New Zealand.

Our Home, Baby, Beauty and Confectionery categories performed well through the period reflecting the focus we have on being both the ‘House of Bargains’ and the ‘Home of Essentials’.

We’ve continued to invest in making it easier for customers to find all their needs in key merchandising categories through the roll-out of specialised zones instore; Pet Zone, Baby Zone, Accessory Zone, and Jewellery Zone.

In support of our category strategies we have strengthened the ‘Ways of Working’ in our merchandise teams, in apparel this has resulted in improved buying controls delivering significant gross profit improvement.

CROSS CATEGORY THEMES MAKE IT EASIER FOR OUR CUSTOMERS

TECHNOLOGY AND ENTERTAINMENT FOR EVERYONE

Helping everyone connect and entertain with their favourite ‘Big Brands’ at TWL great prices.

EVERYTHING FOR HOME

Everything you need and want for your home under one roof at a price you can afford.

ENJOYING OUTDOORS

Delivering New Zealand’s best outdoors range under one roof making everything affordable for everyone to enjoy.

CELEBRATIONS FOR EVERYONE

Making it easy for people to celebrate the important events in their lives with everything available to make parties, gifting and treating themselves or others easy and affordable.

HOME OF APPAREL ESSENTIALS

The family’s everyday affordable apparel and footwear needs with fit-for-purpose quality in an easy to shop environment.

PET ZONE

Providing a ‘one-stop-shop’ for all your pet needs and wants, at prices you can afford with quality you can trust.

BABY ZONE

Providing a ‘one-stop-shop’ for all your baby needs, at prices you can afford with quality you can trust.

Multichannel and direct customer engagement

More and more Kiwis are shopping on our online store – we now have our full range of general merchandise, apparel and over a million books available and we have launched *Red Alert*, our daily deal site. Our online customers can now personalise their account telling us what their interests are, and key dates in their lives so we can tailor our marketing and communications with them.

Our online offerings ensure New Zealanders can shop “Anywhere, Any Way”. They also give us more opportunities to be the ‘House of Bargains’ with unique offers, like our recent successful sale of Piaggio Scooters, chicken coops and rabbit hutches on ‘Red Alert’.

We will continue to improve our online store and make it easier for our customers with new developments such as our ‘click and collect’ option which means customers can buy online and pick up in store and our soon to be launched mobile app, making it even easier to buy online.

“More and more Kiwis are shopping on our online store – we now have our full range of general merchandise, apparel and over a million books available”





The future

The Warehouse is an iconic Kiwi company with a unique competitive positioning, a focused strategy, refreshed store network and a dedicated team. The transition the business has been through in recent years continues as we move into FY14 and we continue to drive innovation, efficiency and growth. We will continue to invest in Multichannel as a key growth area for our business, strengthening our position beyond our bricks and mortar network. We know we have a great heritage and strong foundations and our strategy will continue to lead the way in providing the bargains and essentials that Kiwis want.

Mark Powell

Group Chief Executive Officer



Community and environment

We believe that good societies need good businesses and vice versa. We are very proud of the long-standing commitment and contribution we have made to New Zealand to support this premise. Pages 22 to 33 detail the progress we made this year in supporting fund-raising, our communities and the environment.



92%

**OF NEW ZEALANDERS
LIVE WITHIN A
30-MINUTE DRIVE OF A
THE WAREHOUSE STORE.**





warehouse
stationery

At Warehouse Stationery, we are passionate about delivering everything New Zealanders need to 'Work, Study, Create and Connect'. It is this focus, along with our people, that makes a difference.



**“Everything
you need to
Work, Study,
Create and
Connect”**

Ricky Howard
Store Manager, Albany

EVERYTHING YOU NEED TO WORK, STUDY, CREATE AND CONNECT

With 16 consecutive quarters of same-store sales growth we know we have the right mix of product and price, a great store network, and a highly-engaged, service focused team delivering what our customers need.

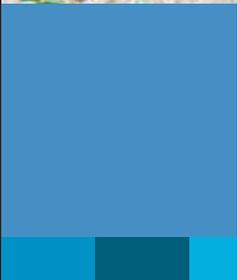
This year, we've continued to evolve our existing offer, building on what we do well. We've been expanding what we offer in growth categories such as fashionery (fashion stationery) and value-added services which are key areas for the business as we grow in the future.

To support this growth, we've reviewed the ranges we offer and the services we provide. We have improved the information and advice we offer customers instore, online and through all other marketing channels.

In July, we underwent a significant rebranding which will help bring to life across all areas of the business the brand positioning of 'Work, Study, Create and Connect'.



“Arts and Crafts customers tell us they need a different type of shopping experience and they come to us for inspiration”



Work

From printers and ink, to stationery and office furniture, we've got our customers' work needs covered. This year, we also introduced 'lifestyle furniture' and increased our technology offer. We were the first retailer in New Zealand to offer all four telecommunications brands: *Telecom, Vodafone, 2degrees* and *Skinny*. As our customers increase their use of digital technologies it has been important that we invest in the add-on services they need. This year, we rolled out new and improved digital online services in our Print and Copy centres nationwide with large format printers and the ability to produce promotional items like pull-up banners.

To support our customers we offer a range of services from finance offers to *Bizrewards*, our loyalty programme that rewards customers for spending and provides them with a business account.



Study

Back to School is an important sales event for us – we continue to offer low prices and a wide range of products to make study easier – everything from exercise books, to calculators and school bags. This year, we introduced the stylish and trendy *iColour* fashionery range we will continue to keep our products fresh and enticing.



Create

Arts and Crafts customers tell us they need a different type of shopping experience and they come to us for inspiration. So that's exactly what we deliver in our range of paints, canvasses, brushes, and more. We deliver inspiration in our mailers, events instore and in the projects and competitions we share. We offer New Zealand's largest range across our 61 stores and want to be the retail destination for 'Everything you need to Create'.

During the year, we launched *fotofinish* our new online site producing quality Personalised Photo Products. *fotofinish* allows customers to capture their precious memories and produce high quality Canvas Prints, Photo Books, Photo Calendars and a wide range of Photo Giftware.



Connect

We know Kiwis love being in touch with each other and the world. Connecting with others anywhere, any time is easy with the deals we offer on tablets, smartphones, laptops and desktops from leading brands like *Apple*, *Hewlett Packard* and *Samsung*.

With the introduction of Tech Solutions we now have technicians covering most of New Zealand, delivering, installing and showing customers how to gain the most from their purchase.



Growing and modernising our store network

We opened five new stores during the year in Warkworth, Silverdale, Royal Oak, Matamata and Hornby. With a network of 61 stores we have made significant progress toward our goal of making Warehouse Stationery a nationwide retail brand.



Engaged teams

We are now embedding 'Work, Study, Create and Connect' into our business processes and systems so that everything we do supports the brand. We have continued to invest in the development of our people – it is their passion and service delivery that make all the difference for our customers.

Our teams are committed and passionate and highly engaged. It was very pleasing to experience a lift in our engagement score for the fourth consecutive year – and, for the third year, we are a finalist in the Kenexa Best Workplaces survey.

Finalist
IN THE KENEXA BEST WORKPLACE
– FOR THE LAST THREE YEARS

The future

Warehouse Stationery's strategy of the last four years has delivered 16 quarters of same-store sales growth. Our nationwide store network, new brand positioning, great product range and pricing will allow us to continue to realise opportunities we believe the business can deliver. I would like to thank our teams throughout the business for continuing every day to deliver on our customer value proposition – we truly have Everything you need to Work, Study, Create, and Connect.

Pejman Okhovat
Chief Executive Officer



Supporting New Zealand's communities

We're big on supporting schools and teachers. 'Support your School' is an easy way for students, their families and the whole community to give back to their school all year. In its third year, 'Support your School' now has 2,432 (90%) of New Zealand's education providers participating and receiving rewards.

New Zealand's 'Most Inspiring Teacher' is our programme which acknowledges and recognises the efforts of our teachers nationwide. This year New Zealand's 'Most Inspiring Teacher', Jan Stevens from Rotary Park School in Otago, was selected from 7,300 nominations – nearly seven times the number of nominations from the previous year.

Each year, we also support a range of community organisations such as the Salvation Army, World Vision's 40 Hour Famine and CanTeen. We've also continued our long-standing relationship with the First Foundation

which brings together businesses, individuals, schools and students to support some of our most talented but financially disadvantaged students through a four-year programme – from school to university, through university and into the workforce.

90%

of New Zealand's education providers earned Support your School points in the last year





**“Noel Leeming
named highest
‘Top of Mind’
and most
preferred
retailer in
New Zealand”**

(Colmar Brunton 2012)

Janie Brown
Sales Consultant, Wairau



Noel Leeming is New Zealand's leading consumer electronics, technology and home appliance retailer with passionate experts to give you the right product and right price every time.

2013
Noel Leeming
celebrates
40 years
of deals

NEW ADDITION TO TW GROUP

In December 2012, TW Group acquired the Noel Leeming Group to support its transformation into New Zealand's leading Non-Food Retail business.

Bond + Bond merges with Noel Leeming

In the early months with TW Group we reviewed the two retail brands that the Noel Leeming Group operated under – Noel Leeming and Bond + Bond. Whilst both retail brands each had a great heritage and place in New Zealand's retail landscape it was decided there was more potential to grow if we were focused on one retail brand. The decision was taken to merge the Bond + Bond chain into the larger Noel Leeming network, closing 13 stores in the process. All 300 non-management team members from Bond + Bond, a team that was already highly trained and engaged, moved into roles at Noel Leeming.

This rationalisation saw us move from a position of two brands with 92 stores – to a position of one brand with 75 stores. We now have a clear focus on the Noel Leeming retail brand that offers us a solid platform for growth.

Right Products

As a leading New Zealand consumer electronics, technology and home appliance retailer we continue to build on our strong and longstanding relationships with the world's leading consumer electronics brands like Samsung, Panasonic, Hewlett Packard, LG, and Fisher & Paykel.

Right Price

From retail customers to commercial customers we will always offer you the right price on all of our products and we are the only Home Entertainment and Technology retailer to offer *Fly Buys*.

1986

The first North Island store opens in St Lukes – bringing the nationwide network of stores to 13

1973

The first Noel Leeming store opens in Barrington Mall, Christchurch, just in time for colour television



1996

In September, Noel Leeming becomes the first and only appliance store to offer Fly Buys. Since 1996, we've given away over 250 million Fly Buys Points



Tech Solutions

Everything to get your home or business connected – Tech Solutions – is our instore and in-home offer guaranteeing a no hassle after-sale solution for our customers. We offer a full range of services from diagnostics through to a total solution where we take care of the installation and set-up of the latest home office technology or entertainment centres. Our technicians have most of New Zealand covered, delivering, installing and showing customers how to get the most out of their purchase.

Open Learning Centre

Almost everyone needs a helping hand sometimes with their latest technology purchase. What better than to have that help on hand instore. The first Open Learning Centre (OLC) was opened in our St Lukes store followed by an additional two in Wairau Park and Manukau. OLCs offer both complimentary entry-level introductory sessions and paid instore or onsite services.

OLC instore can offer learning experiences one on one, or one to many, with a dedicated purpose built area located right in the heart of the actual store, OLC also specialises in external training from one to 1,000 people. OLC has allowed us to showcase our 'passionate experts'.

If you are a commercial customer, we have you covered as well

Our customers range from small businesses through to some of the largest corporations, institutions and government departments, and our team of dedicated commercial business managers have the country covered. We offer a sales, fulfilment and service model that is fully integrated with our store network. Key market segments for us include government, schools/education, SMEs, building and hospitality.

Noel Leeming Lifestyle Appliances

There are now two luxury Lifestyle Appliances stores, at St Lukes and Wairau Park. These unique destinations have dedicated staff and purpose built showrooms designed to help customers experience our premium quality brands, and choose the best kitchen and laundry solutions for their homes.

Customers can discover the latest in kitchen concepts and innovations from over 30 of the world's best brands such as the *Liebherr* French Door Integration fridge, *Asko* i-chef oven for the kitchen, a *Hoover* washer or an *Electrolux* dryer for the laundry. The new concept stores also give us the opportunity to promote a wide range of other brands including exclusive brands such as *Steel* and *Scholtes*. Instore cooking and coffee demonstrations, cake couture classes and wine appreciation sessions are all held to further enhance the Lifestyle Appliances point of difference.

2010

The first luxury appliances shop-in-shop concept store, Noel Leeming Lifestyle Appliances, opens in St Lukes, Auckland



“The latest in kitchen concepts and innovations from over 30 of the world’s best brands”



Our online store

We offer customers 'The Latest and Greatest Deals' online whether they are looking for new televisions, technology items, whiteware or the latest in luxury kitchen appliances. We have got it all online, giving shoppers the opportunity to research and buy online. Whether it's a small household appliance like a *Breville* toaster or large appliance and whiteware brands like *Westinghouse*, *Fisher & Paykel*, *Simpson*, *Samsung* and *LG*, we have got it all.



Our strategy

To support our brand position we have four core pillars:

1. **Passionate people**
2. **Expert service**
3. **Right product**
4. **Right price**

Customers come to us because they know they will find the right product at the right price, presented and delivered by passionate people in a service experience that's unbeatable. They also know this is exactly what they will experience every time.

Passionate people

To maintain our leadership position in the specialist electronics and home appliance market we know that it's key for us to have the most passionate people with the best service capability - they are our differentiator. Our people development programmes focus on the front-line with retailing and store management development programmes and a growing commitment to enabling our store managers to be 'leaders of leaders'. We want a strong pipeline of talent to take the business forward. The success of our 'Retail Pathways' programme is vital for us as it further strengthens a culture that excels at service.

Our passionate people are what differentiate us from other retailers. Our people continue to be recognised by our industry in the Annual Wares Awards, which celebrate retailing excellence. For three consecutive years, we have won the #1 Retailer and Young Retailer of the Year awards. We are finalists again for 2013.

Looking ahead

We are pleased with our performance after the successful transition to a single retail brand with the merger of Bond + Bond into Noel Leeming. The Consumer Electronics and Home Appliance sector has experienced substantial growth over the past five years. As we all continue to purchase technology and entertainment products in an increasingly 'connected' world, we believe this sector will continue to grow, and we are well positioned to capture this market growth. The strength of our brand, our network of stores our team of 'passionate experts' and our continued investment in our store network will ensure we sustain and grow our reputation and market position as New Zealand's leading consumer electronics, technology and home appliance retailer.

Tim Edwards
Chief Executive Officer

TORPEDO7 AND MULTICHANNEL

**We want to be the leading
Multichannel retailer in
New Zealand and, over
the past year, we have
made significant progress
towards this goal.**

As part of our strategy to become the leading multichannel retailer in New Zealand, TW Group has acquired a majority interest in Torpedo7 and Shop HQ (Pet.co.nz), launched several sites ourselves (*Red Alert* and *ilovebeauty*), run a successful pop-up Health & Beauty business and ensured our bricks and mortar stores are fully represented online. We will continue to invest in these channels, making sure we are where our customers want us to be – “Anywhere, Any Way”.



Torpedo7

Torpedo7 is New Zealand's leading online outdoor/adventure/sporting store.

TW Group acquired 51% of Torpedo7 in April and will work with its founders to ensure the business continues to grow and maintain its position as New Zealand's leading online outdoor/adventure/sporting retailer.



1-day

1-day is one of the country's largest shopping websites offering exceptional quality and branded goods at unbelievable prices. Each day at 12 noon Kiwis can find great deals - but they have to be quick as they are only for sale for 24 hours or until they are sold out.



Knucklebone

Knucklebone sells premium, top quality outdoor gear at crazy clearance prices. The site offers one deal at a time with each deal only available for 20 minutes or until the product is sold out - then the next deal becomes available.



Red Alert

In August 2012, we launched Red Alert, our daily deal site, offering three time-limited deals each day. These deals, ranging from jewellery, to nappies to Piaggio Scooters, can sell out within hours.



Shop HQ (pet.co.nz)

In July, TW Group acquired 51% of Shop HQ. The first site launched by Shop HQ was pet.co.nz, a one-stop online pet supply shop, stocking everything a pet lover needs to feed, clothe, clean and groom their family pet. All from the best brands, all at affordable prices, pet supplies conveniently available online and all delivered straight to Kiwi homes nationwide.



Ilovebeauty

Passionate about beauty products, the *ilovebeauty* team brings international brands at great prices, delivered directly to customers wherever they are. Products from L'Oreal haircare, Max Factor make up and O.P.I. nail polish, through to men's and women's fragrances like Marc Jacobs, the site delivers the brands you know at prices you love.



Big Bucket Deals

TW Group purchased import specialist Insight Traders as part of the strategy to improve our bargain sourcing capabilities. The purchase of this business is a good fit with our existing initiatives and will improve our ability to be the 'House of Bargains' and the 'Home of Essentials'.

Insight Traders, also known as Big Bucket Deals, provides a more extensive range of products and an alternative source of bargaining products for our recently launched one day deal website, Red Alert.



The Warehouse

We've focused on building our ranges so that Kiwis now know almost anything we have in The Warehouse, Warehouse Stationery and Noel Leeming stores can be bought online. Whether at home, on the go, or through our mobile site



Warehouse Stationery

we are making it easier to browse and purchase - "Anywhere, Any Way". We will continue to improve each of our online stores and make it easier for our customers with new developments coming in the months ahead such



Noel Leeming

as a 'click and collect' option which means customers can buy online and pick up in our Red Shed's or use mobile apps, making it even easier to buy online.



**“The Warehouse’s
commitment to
our partnership
has provided
us with the
confidence to
progress our own
long-term plans”**

John O'Connell
Chief Executive, Life Education Trust

COMMUNITY AND ENVIRONMENT

For over 30 years our customers, our people, our communities and the environment have been at the heart of our business.

We're constantly looking for ways in which we can work together and make a difference.

Our customers know that when they shop with us and support our instore promotions for our community partners, they're making a difference too. We know that with the strength of our brand, the reach of our network of stores, and the generosity of our customers, together we make a real difference in our communities. We believe that if we focus our support on families and young people that we will help build a stronger and more sustainable nation. Therefore, all the groups we support in some way touch on the lives of Kiwi families and young people, making things a little easier, assisting vital services or empowering them to achieve their potential.

The Warehouse, with the generosity of our customers and suppliers, raised and distributed over \$3 million to New Zealand community service and national community organisations this year.

Across the country, throughout our network, our teams, our suppliers and our customers can build and help strengthen their local communities. Our desire to support families and young people results in us actively supporting communities throughout Aotearoa.

We also recognise that the choices we make today affect our environment, which is why we continue our campaigns to reduce impacts from store waste, to increase our recycling efforts and reduce our carbon footprint.

Over the years we have set in place some key initiatives to address our carbon footprint, in areas like electricity usage. We have strong foundations in place and we will continue our efforts. Yet, as we transform and strengthen our multichannel business, we know our carbon footprint will change as we meet customer-buying patterns and increase our usage and reliance on couriers.

We challenge ourselves to walk the talk and deliver continuous improvements in our community and environment initiatives.

This year we have expanded the information contained in this Annual Report to our shareholders as part of demonstrating performance in this key result area of our The Warehouse strategy.

As we bring each of the businesses together within TW Group we will be able to report more of our metrics on a group basis. The information on pages 22 to 33 covers the activities of The Warehouse only.

NATIONAL FUND-RAISING AND PARTNERS

With our national community partners and the generosity of our customers we helped make a big difference for families and young people.

Confident connected kids

The Warehouse and Variety – The Children’s Charity partnered to support students become lifelong literate learners who are confident and connected in class, have the tools for ongoing learning, and are ready to contribute in the workforce and in their communities.

Through ‘Laptops for Learning’ The Warehouse and Variety – The Children’s Charity provided laptops to low decile schools in Gisborne, Christchurch, Hawke’s Bay, the West Coast and Auckland, with more areas to come.

Healthier happier lives

The Warehouse supported Life Education Trust as they extended health education to 1,400 primary and intermediate schools, showing over 240,000 children how to have healthier happier lives.

Our support has meant Life Education Trust could create te reo Māori resources for children and parents and ensure that an additional 4,000 children could experience a Life Education visit this year. Our commitment to Life Education Trust provides them with the confidence to progress their long-term plans.

The principal of McAuley High School,
Anne Miles says

“For our students, education can be the catalyst for students to build a better life. Being computer literate is now vital when they enter the workforce. These HP Pavilion Sleekbook notebooks that have been donated give our students the same access to education and career opportunities that other students in New Zealand have and help us ensure our students are prepared for the ‘real world’”

The CEO of Life Education Trust,
John O’Connell says

“We’ve developed the first phase of our digital strategy to enhance our capacity for innovation in education. We’re proud The Warehouse supports our vision and we’re truly excited about what a difference we can make together”

Natasha O'Callaghan says

“I knew bad things were happening, but I didn't realise I might actually die. I'm still trying to get my head around that. I'm just so glad Starship was able to come and get me. They saved my life”

Protecting Kiwi kids

The Warehouse supported KidsCan to help set children up for a better start to the school day through the KidsCan annual Christmas Cracker campaign. The funds raised in stores provide thousands of raincoats and sunhats for disadvantaged Kiwi kids at our partner schools through the 'Warm Kids, Cool Kids' Programme.

Ariana Krynen says

“In my third year at Otago uni, I decided to take up volunteering at Youthline to get some hands on training and to see if I was cut out for this type of work – luckily Youthline taught me I was! The journey I started in Otago was so fulfilling and had taught me so much about myself and others – I was hooked!”

A real lifesaver

The Warehouse and Starship Foundation continued to achieve wonderful results in paediatric health care and the delivery of critical services to Starship Hospital. The Warehouse customers generously contributed to help ensure the Foundation could continue to fund Starship's National Air Ambulance Service.

Almost every day an injured or sick child, like Natasha O'Callaghan from Lower Hutt, depends on this invaluable service. She had severe blood poisoning that had spread to her heart and lungs. The doctors knew an emergency flight to Starship was probably her best chance.

Greerton Village School Principal,
Anne Mackintosh says

“We are always pushing the sunsmart message and the importance of wearing hats – but some (pupils) aren't able to bring hats from home – so these ones will have their names on them and are going to stay at school. It's like pennies from heaven”

Reaching out to young people

The Warehouse partnered with Youthline supporting 700 volunteers at work across the country dealing with 43,000 calls to the 24/7 0800 HelpLine, as well as free texts, emails and many face-to-face meetings. We've been supporting Youthline with the purchase of new hardware and the running costs for the HelpLine and text counselling service and we've helped complete the South Auckland Community Centre in Papatoetoe where young people can access the internet and learn hospitality skills.

The real impact of community based fund-raising is only really seen and appreciated on the front line. Youthline's 2012 Volunteer of the Year, Ariana Krynen, completed 144 hours as a helpline counsellor and mentor and knows just how important Youthline's helpline is.

NATIONAL FUND-RAISING

AUGUST 2012 TO JULY 2013

\$

Variety – The Children’s Charity (includes \$405,000 from the Supplier Dinner)	603,927
KidsCan	202,350
Starship	228,915
Youthline	136,132
Life Education	102,883
Auckland Zoo (proceeds from the Supplier Golf Day)	58,000

TOTAL NATIONAL FUND-RAISING	\$1,332,207
------------------------------------	--------------------

REGIONAL FUND-RAISING AUGUST 2012 TO JULY 2013	\$336,653
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LOCAL FUND-RAISING

AUGUST 2012 TO JULY 2013

\$

Coin Box	127,074
Community BBQ	690,410
Customer Choice/Bags for Good Programme	475,432

TOTAL LOCAL FUND-RAISING	\$1,292,916
---------------------------------	--------------------

OTHER	\$73,489
--------------	-----------------

\$3,035,265

Grand Total National, Regional and Local Fund-raising for 2012 – 2013

AROUND THE REGIONS

Our teams know that working with us means they're making a difference in their own communities throughout the country.

Fund-raising continues to be a key way in which we can make a contribution. Instore we run campaigns like our 'Add a Dollar' and coin boxes at check out, sell novelty items, and we continue to provide BBQs to community groups outside most of our stores every weekend of the year.

Successful 'Add a Dollar' at checkout campaign makes a difference to regional communities

We know Kiwis are generous as this year over \$336,000 was raised and distributed through our eight regions across the country from Region 1 in the deep south, to Region 8 in the north.

Region 1	Otago Regional Rescue Helicopter
Region 2	Children's Ward at Christchurch Hospital
Region 3	Wellington Children's Hospital
Region 4	Hospice
Region 5	St John Youth Programme
Region 6	Child Cancer Foundation
Region 7	Kidz First
Region 8	Project Promise

“We are pleased with the ongoing success of our instore campaigns. These are a great way to enable our teams and customers to support their own regions”



Our successful Red Shirts in Schools programme expands

We extended our Red Shirts in Schools programme from Auckland to Wellington and Christchurch. Secondary students who join the scheme gain valuable workplace experience while they are achieving credits towards Level 2 of the National Certificate of Educational Achievement (NCEA). Students who have been identified as needing opportunities to help them gain important skills that will help them to transition into the workplace are given the opportunity to complete the Customer Service Award programme in our stores. The students tell us this is a positive way to be introduced to the workplace, building their confidence and skills.

This year, 949 students took part in the three regions. Since 2009, 2,610 teenagers have been through the programme with many, like Luther Riwhi, going forward to join our teams.

Luther Riwhi says

“I used to be the type of person who would shy away from meeting new people, I had no confidence and would always keep to myself. Being a part of the ‘Red Shirts in Schools’ helped me to break out of my shy shell and with the help from some of the team members at The Warehouse, I became the happy person I am today and even scored myself a job!”

CLOSE TO HOME



Customer Choice – ‘Bags for Good’ Programme

Our ‘Customer Choice’ programme is how we listen to our customers and direct funds into programmes that directly meet the needs of their local communities. When customers shop in any of our stores they tell us which groups to direct funds to through a voting system. At the end of each six-month period the funds raised are given according to their percentage of total votes. The funds that customers are directing towards their own communities are the proceeds from the sale of plastic bags at the checkout – this is what we refer to as our ‘Bags for Good’ programme. This year, \$475,432 was distributed to groups nationwide.



Zoo-fari

In Auckland, The Warehouse School Zoo-fari programme was kicked off with an initial \$58,000 to fund the programme. Zoo-fari enables children from low decile schools to visit the zoo for educational purposes. The zoo offers a fantastic combination of education through curriculum linked learning programmes and connecting children and adults with nature and conservation awareness.

The partnership with Auckland Zoo offers a visit to the zoo, including transport provided by bus company, Ritchies, at no cost for students within the Auckland Council region. Each visit includes a learning session at the zoo's dedicated Discovery and Learning Centre, up close animal experiences, and the opportunity to explore the zoo. It is anticipated that 10,000 children will visit the zoo over the coming three years.

The \$58,000 donated was raised at the Bob Tindall Charity Golf Day that we organise annually and run with our suppliers.

The New Zealand Fallen Heroes Trust

The New Zealand Fallen Heroes Trust provides direct, practical support to the families of those men and women who are wounded or killed while serving their country in the armed forces. We were proud to partner with our supplier Sistema and, thanks to their generous support, \$11,200 was raised and contributed to the work of the Trust.



**TOGETHER
WITH OUR
SUPPLIERS,
WE MAKE A
DIFFERENCE**

“Every day, our suppliers help us provide the bargains and essentials that Kiwis want. That’s important, but they also know that, in working with us, they’re working to make a difference to the lives of families and young people”

It’s important to us to recognise the importance of our suppliers as every day they help us provide the bargains and essentials that Kiwis want. Our supplier base ranges from small domestic manufacturers to large multinational corporations and includes importers and buying agents, as well as suppliers associated with our Shanghai representative office.

Each year, we host The Warehouse Supplier Awards and Charity Dinner – an evening that combines celebration with fund-raising. The event held in November 2012 raised \$405,000 for Variety for their ‘Laptops for Learning’ programme.

With the backing of our suppliers, this annual event raises one of the largest amounts of money in a single day for a nominated community organisation.

CLEAN AND GREEN IS MORE THAN A SLOGAN FOR US



Energy-efficient lighting

We have invested heavily over recent years to reduce our electricity usage. This includes the installation and roll-out of energy-efficient T5 lighting through our store modernisation programme and ensuring our new store designs incorporate the most efficient energy management systems.

We've installed an energy management control system to deliver the full potential of this lighting system and provide improved control and monitoring of the complete building services. We've changed the way we install and locate lights instore. These refinements – on top of our existing system of dimming the light output as the natural light through the roof skylights increases – are delivering significant energy savings to our stores and to the business overall.

The latest generation T5 lamps consume less than 13% of the power of a standard 54-watt bulb. We are among the first enterprises in New Zealand to adopt such technology.

Our work in this area will continue to generate additional savings, which is good for us and good for the environment.

In a year in which sales have increased for The Warehouse, it is pleasing to report that our carbon footprint has declined. As our sales increase and our reliance on couriers increases and, as we continue to expand our Multichannel businesses, we would expect to see our footprint grow.

“When it comes to the environment we take pride in the successful initiatives that underpin our commitment to reducing our impacts for the benefit of future generations. We’ve long taken a leadership position advocating for improvement in the retail sector”

Plastic Bag Statistics

Measure	F12/F13 % VAR	F13	F12	F11	F10
Number of checkout bags sold	14.77	7,372,685	6,424,014	6,893,987	7,232,136
Total kg sold @ 7.27kg/1,000 bags	14.77	53,599	46,702	48,968	52,578
Reusable bags issued	-58.52	189,658	457,282	242,616	410,614
Percentage of customers purchasing plastic bags	2.27	14.97	12.7	14.1	14.5
10-cent bag donation	14.61	\$475,432	\$414,821	\$413,449	\$432,614



Greenhouse Gas Emissions 2013

Emissions source	SCOPE	2013	2012	% CHANGE
The Warehouse-owned Vehicles and Lifts	1	1,050	1,069	-1.7
Electricity	2	12,414	13,399	-7.4
Shipping	3	11,286	11,038	2.3
Road Freight	3	2,288	2,232	2.5
Employee Air Travel	3	2,223	2,137	4.0
Rail Freight	3	1,443	1,558	-7.4
Courier Freight	3	317	176	79.9
Rentals, Taxis and Private km Claims	3	271	254	6.7
Landfill	3	1,067	1,268	-15.8
Total Tonnes CO₂ Equivalent		32,359	33,130	-2.3

It is important when looking at our reporting this year to note that we have made changes in our methodology. First, that shipping emissions now include air freight (not just sea freight) and landfill has been added and, therefore, upon advice of our independent auditors, we have recalculated our 2012 figures to more accurately demonstrate trends. We have also introduced more accurate estimation of our use of taxis and the resulting impact.

The decrease in CO₂ by 2.3% is the result of many changes, including the introduction of 38 hybrid vehicles into our fleet reducing petrol consumption, and efficiencies achieved in our domestic freight usage where less fuel was used even though we shipped more of our product.

Courier emissions are less than 1.0% of total emissions but they are increasing rapidly as we grow our Multichannel businesses.

As our customers increase their online shopping with us we will see ongoing increases here.

Electricity usage has increased slightly as we continue to grow our store footprint nationwide. As part of our store refit programme and with each of our new stores we continue to roll out our energy efficiency initiatives such as the T5 lighting. Across the year we have achieved at least 25.0% savings from 10 stores with T5 installed.

Our drive to reduce waste to landfill delivered a result that is 4.0% lower than last year, even with three new stores in our network and with our intensive store refit programme.

In the Auckland region, we have been working with wood recyclers to increase our industrial recycling resulting in 18.27 tonnes of wood diverted from landfill in the fourth quarter. Over 75.0% of our landfill waste is at landfills where the landfill gas is recovered and used to produce electricity.

This year, the sale of plastic bags has increased by almost 15.0%

With the addition of three new stores into our network and increased sales and numbers of items sold, we did anticipate an increase. Whilst local community organisations benefit from the proceeds of sales of plastic bags it is the intention of The Warehouse to continue to focus on ways to reduce the number of bags issued.

**ACROSS THE YEAR WE
HAVE ACHIEVED AT
LEAST 25% SAVINGS
FROM THE 10 STORES
WITH T5 INSTALLED**

INDEPENDENT ACCOUNTANTS' LIMITED ASSURANCE REPORT



To the Management of The Warehouse Group Limited

We have undertaken a limited assurance engagement of the accompanying Greenhouse Gas Emissions 2013 Report ("the Emissions Report") prepared by the Management of The Warehouse Group Limited and its subsidiaries ("the Group") for the year ended 28 July 2013, as set out on page 31.

Management's Responsibility for the Report

The management of the Group is responsible for the preparation and presentation of the Emissions Report that presents fairly the total quantified emissions and removals stated in tonnes of carbon dioxide equivalent for the Group for the year ended 28 July 2013. This responsibility includes the design, implementation and maintenance of internal control relevant to the preparation of an Emissions Report that is free from material misstatement, whether due to fraud or error.

Accountants' Responsibility

Our responsibility is to express a limited assurance conclusion on the Emissions Report based on the procedures we have performed and the evidence we have obtained. We conducted our assurance engagement in accordance with International Standard on Assurance Engagements (New Zealand) 3410, Assurance Engagements on Greenhouse Gas Statements (ISAE (NZ) 3410), issued by the New Zealand Auditing and Assurance Standards Board. That standard requires that we plan and perform this engagement to obtain limited assurance about whether the Emissions Report is free from material misstatement, and report our conclusion to you.

A limited assurance engagement undertaken in accordance with ISAE (NZ) 3410 involves assessing the suitability in the circumstances of the Company's use of the criteria stated in the World Resources Institute/World Business Council for Sustainable Development: The Greenhouse Gas Protocol:

A Corporate Accounting and Reporting Standard ("the Criteria") as the basis for the preparation of the Emissions Report, assessing the risks of material misstatement of the Emissions Report whether due to fraud or error, responding to the assessed risks as necessary in the circumstances, and evaluating the overall presentation of the Emissions Report. Our work has not been carried out in accordance with the criteria stated in the Corporate Value Chain (Scope 3) Accounting and Reporting Standard.

Summary of work performed

The procedures we performed were based on our professional judgment and included enquiries, observation of processes performed, inspection of documents, analytical procedures, evaluating the appropriateness of quantification methods and reporting policies and agreement or reconciling with underlying records.

We have not performed any procedures in the context of an audit, review or verification of the underlying records or other sources from which the Emissions Report data was extracted.

Inherent Limitations

Quantification of emissions and removals data is subject to inherent uncertainty because of incomplete scientific knowledge used to determine emissions factors and the values needed to combine emissions of various gases.

Due to the inherent limitations of any evidence gathering procedures and limitations in the Group's systems and processes that support the compilation of the Emissions Report, it is possible that fraud or error may occur and not be detected.

A limited assurance engagement is substantially less in scope than a reasonable assurance engagement in relation to both the risk assessment procedures, including an understanding of internal control, and the procedures performed in response to the assessed risks.

The procedures performed in a limited assurance engagement vary in nature from, and are less in extent than for, a reasonable assurance engagement. As a result, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had we performed a reasonable assurance engagement. Accordingly, we do not express a reasonable assurance opinion about whether the Group's Emissions Report has been prepared, in all material respects, in accordance with the Criteria applied as explained in the Emissions Report. Consequently we may not have become aware of all significant matters that might be identified in an assurance engagement designed to obtain reasonable assurance. Accordingly we do not express any opinion on the Emissions Report.

Accountants' other relationships with the Group

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

Conclusion

Based on the procedures we have performed and the evidence we have obtained, nothing has come to our attention that causes us to believe that the Group's Emissions Report is not prepared, in all material respects, in accordance with the Criteria as explained in the Emissions Report.

We completed our procedures on 10 October 2013 and our findings are reported as at that date.

Restriction on Use and Distribution

This report has been prepared solely for the Management of the Group. This report is not to be used for any other purpose. We disclaim any assumption of responsibility for any reliance on this report to any party other than the Management of the Group, or for any reliance on this report for any other purpose than that for which it was prepared.

PricewaterhouseCoopers

PricewaterhouseCoopers, Wellington

KEY ENVIRONMENT STATISTICS FOR 2013



Waste Total (M³)

21,045

2012	22,453
2011	19,818



Store Ave Waste (M³/\$1M)

10.7

2012	10.8
2011	9.6



Electricity (KWH)

79,653,481

2012	78,213,397
2011	80,419,337



Electricity Store Average (KWH/Month/M²)

15.5

2012	12.9
2011	12.8



Carbon (TONNES CO₂)

32,359

2012	27,312
2011	22,024



Plastic Bags Issued

7,372,685

2012	6,424,014
2011	6,893,987

Financial Statements

FOR THE 52 WEEK PERIOD ENDED 28 JULY 2013

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 12 September 2013.



Graham Evans
Chairman



Keith Smith
Deputy Chairman

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Income Statements

FOR THE 52 WEEK PERIOD ENDED 28 JULY 2013

		(52 WEEKS)	(52 WEEKS)	(52 WEEKS)	(52 WEEKS)
	NOTE	GROUP 2013 \$000	GROUP 2012 \$000	PARENT 2013 \$000	PARENT 2012 \$000
Continuing operations					
Revenue		2,239,532	1,732,168	-	-
Cost of sales		(1,473,253)	(1,110,112)	-	-
Gross profit		766,279	622,056	-	-
Other income	6	10,301	6,618	68,463	62,239
Employee expense	7	(355,625)	(288,331)	-	-
Lease and occupancy expense	8	(113,503)	(86,823)	-	-
Depreciation and amortisation expense	9	(44,017)	(41,630)	-	-
Other operating expenses	10	(152,197)	(115,428)	(3)	(7)
Operating profit		111,238	96,462	68,460	62,232
Gain on disposal of property	25	77,368	18,230	-	-
Direct costs relating to acquisitions	38	(2,356)	-	-	-
Release of warranty provisions	40	-	7,355	-	-
Equity earnings of associate	27	3,464	3,197	-	-
Earnings before interest and tax		189,714	125,244	68,460	62,232
Net interest expense	11	(11,675)	(10,308)	-	-
Profit before tax		178,039	114,936	68,460	62,232
Income tax expense	12	(28,423)	(24,776)	1	2
Net profit for the period from continuing operations		149,616	90,160	68,461	62,234
Discontinued operations					
Loss from discontinued operations (net of tax)	37	(4,288)	-	-	-
Net profit for the period		145,328	90,160	68,461	62,234
Attributable to:					
Shareholders of the parent		144,748	89,848	68,461	62,234
Minority interests	32	580	312	-	-
		145,328	90,160	68,461	62,234
Basic earnings per share					
From continuing operations	16	48.1 cents	29.0 cents		
From discontinued operations	16	(1.4) cents	-		
From net profit for the period	16	46.7 cents	29.0 cents		
Diluted earnings per share					
From continuing operations	16	47.9 cents	28.9 cents		
From discontinued operations	16	(1.4) cents	-		
From net profit for the period	16	46.5 cents	28.9 cents		
Net assets per share	17	133.1 cents	102.4 cents		

Statements of Comprehensive Income

FOR THE 52 WEEK PERIOD ENDED 28 JULY 2013

		(52 WEEKS)	(52 WEEKS)	(52 WEEKS)	(52 WEEKS)
	NOTE	GROUP 2013 \$000	GROUP 2012 \$000	PARENT 2013 \$000	PARENT 2012 \$000
Net profit for the period		145,328	90,160	68,461	62,234
Items that may be reclassified subsequently to the Income Statement					
Movement in cash flow hedges	22	9,237	23,456	-	-
Income tax relating to movement in cash flow hedges	24	(2,586)	(6,567)	-	-
Other comprehensive income		6,651	16,889	-	-
Total comprehensive income		151,979	107,049	68,461	62,234
Attributable to:					
Shareholders of the parent		151,399	106,737	68,461	62,234
Minority interest		580	312	-	-
Total comprehensive income		151,979	107,049	68,461	62,234
Total comprehensive income attributable to shareholders of the parent arise from:					
Continuing operations		155,687	106,737	68,461	62,234
Discontinued operations		(4,288)	-	-	-
		151,399	106,737	68,461	62,234

The accompanying statement of accounting policies and notes to the financial statements on pages 40 to 70 form an integral part of the financial statements.

Balance Sheets

AS AT 28 JULY 2013

	NOTE	GROUP 2013 \$000	GROUP 2012 \$000	PARENT 2013 \$000	PARENT 2012 \$000
ASSETS					
Current assets					
Cash and cash equivalents	18	22,763	16,286	2,517	2,520
Trade and other receivables	21	66,513	27,567	-	-
Inventories	19	458,109	309,421	-	-
Derivative financial instruments	22	2,487	-	-	-
Taxation receivable	23	-	-	596	603
Total current assets		549,872	353,274	3,113	3,123
Non-current assets					
Trade and other receivables	21	3,374	888	-	-
Property, plant and equipment	25	305,602	355,227	-	-
Intangible assets	26	108,479	13,379	-	-
Investments	27	5,671	6,372	42,000	42,000
Derivative financial instruments	22	1,315	2,489	-	-
Intercompany advances	41	-	-	317,509	317,211
Deferred taxation	24	21,425	2,425	-	-
Total non-current assets		445,866	380,780	359,509	359,211
Total assets	5	995,738	734,054	362,622	362,334
LIABILITIES					
Current liabilities					
Borrowings	29	85,336	78,203	-	-
Trade and other payables	20	257,917	126,857	888	909
Derivative financial instruments	22	1,566	6,158	-	-
Taxation payable	23	3,466	5,248	-	-
Provisions	28	45,449	32,502	-	-
Total current liabilities		393,734	248,968	888	909
Non-current liabilities					
Borrowings	29	154,301	150,776	99,414	99,103
Derivative financial instruments	22	1,866	4,796	-	-
Trade and other payables	20	15,809	-	-	-
Provisions	28	18,263	12,147	-	-
Total non-current liabilities		190,239	167,719	99,414	99,103
Total liabilities	5	583,973	416,687	100,302	100,012
Net assets		411,765	317,367	262,320	262,322
EQUITY					
Contributed equity	30	244,084	245,706	251,445	251,445
Reserves	31	2,717	(5,006)	-	-
Retained earnings	33	153,228	76,434	10,875	10,877
Total equity attributable to shareholders		400,029	317,134	262,320	262,322
Minority interest	32	11,736	233	-	-
Total equity		411,765	317,367	262,320	262,322

The accompanying statement of accounting policies and notes to the financial statements on pages 40 to 70 form an integral part of the financial statements.

Statements of Cash Flows

FOR THE 52 WEEK PERIOD ENDED 28 JULY 2013

		(52 WEEKS)	(52 WEEKS)	(52 WEEKS)	(52 WEEKS)
	NOTE	GROUP 2013 \$000	GROUP 2012 \$000	PARENT 2013 \$000	PARENT 2012 \$000
Cash flows from operating activities					
Cash received from customers		2,264,573	1,738,102	-	-
Dividends received from subsidiary companies		-	-	68,463	62,239
Interest income		136	155	7,370	7,370
Payments to suppliers and employees		(2,117,935)	(1,650,613)	(3)	(6)
Income tax paid		(40,803)	(31,291)	-	-
Interest paid		(12,270)	(11,869)	(7,370)	(7,370)
Net cash flows from operating activities		93,701	44,484	68,460	62,233
Cash flows from investing activities					
Proceeds from sale of property, plant and equipment and computer software		195,572	30,318	-	-
Staff share purchase and other advances repaid		545	629	-	-
Advances from subsidiary companies		-	-	595	601
Dividend received from associate	27	4,165	4,410	-	-
Purchase of property, plant and equipment and computer software		(93,315)	(101,392)	-	-
Related party advances		(3,000)	-	-	-
Landlord advances		(9,071)	-	-	-
Refund of staff share purchase advances		(78)	(132)	-	-
Acquisition of subsidiaries, net of cash acquired	38	(108,715)	-	-	-
Net cash flows from investing activities		(13,897)	(66,167)	595	601
Cash flows from financing activities					
Proceeds from/(Repayment of) short term borrowings		(573)	78,203	-	-
Repayment of finance leases		(902)	-	-	-
Purchase of treasury stock	30	(2,777)	(261)	-	-
Treasury stock dividends received	33	353	255	-	-
Dividends paid to parent shareholders		(69,058)	(62,840)	(69,058)	(62,840)
Dividends paid to minority shareholders	32	(370)	(404)	-	-
Net cash flows from financing activities		(73,327)	14,953	(69,058)	(62,840)
Net cash flow		6,477	(6,730)	(3)	(6)
Opening cash position		16,286	23,016	2,520	2,526
Closing cash position	18	22,763	16,286	2,517	2,520

Reconciliation of Operating Cash Flows

FOR THE 52 WEEK PERIOD ENDED 28 JULY 2013

		(52 WEEKS)	(52 WEEKS)	(52 WEEKS)	(52 WEEKS)
	NOTE	GROUP 2013 \$000	GROUP 2012 \$000	PARENT 2013 \$000	PARENT 2012 \$000
Net profit		145,328	90,160	68,461	62,234
Non-cash items					
Depreciation and amortisation expense	5	44,225	41,630	-	-
Share based payment expense	31	2,545	1,616	-	-
Interest capitalisation		(322)	(1,375)	311	311
Unrecovered lease incentives on property sales		(1,237)	-	-	-
Movement in deferred tax	24	(13,640)	(5,160)	-	-
Share of profit from associate	27	(3,464)	(3,197)	-	-
Total non-cash items		28,107	33,514	311	311
Items classified as investing or financing activities					
Gain on sale of property, plant and equipment		(73,403)	(16,692)	-	-
Direct costs relating to acquisitions	38	2,356	-	-	-
Supplementary dividend tax credit	23	595	601	595	601
Total investing and financing adjustments		(70,452)	(16,091)	595	601
Changes in assets and liabilities					
Trade and other receivables		(14,134)	(3,253)	-	-
Inventories		(25,303)	(46,758)	-	-
Intercompany advances		-	-	(894)	(1,304)
Trade and other payables		28,946	(6,916)	(20)	(40)
Provisions		2,212	(4,218)	-	-
Income tax		(1,003)	(1,954)	7	431
Total changes in assets and liabilities		(9,282)	(63,099)	(907)	(913)
Net cash flows from operating activities		93,701	44,484	68,460	62,233

The accompanying statement of accounting policies and notes to the financial statements on pages 40 to 70 form an integral part of the financial statements.

Statements of Changes in Equity

FOR THE 52 WEEK PERIOD ENDED 28 JULY 2013

GROUP	SHARE CAPITAL	TREASURY STOCK	CASH FLOW HEDGE RESERVE	EMPLOYEE SHARE BENEFITS RESERVE	RETAINED EARNINGS	MINORITY INTEREST	TOTAL EQUITY
	\$000	\$000	\$000	\$000	\$000	\$000	\$000
For the 52 week period ended 28 July 2013							
Balance at the beginning of the period	251,445	(5,739)	(7,215)	2,209	76,434	233	317,367
Net profit for the period	-	-	-	-	144,748	580	145,328
Net change in fair value of cash flow hedges	-	-	6,651	-	-	-	6,651
Total comprehensive income	-	-	6,651	-	144,748	580	151,979
Contributions by and distributions to owners:							
Share based payments charged to the income statement	-	-	-	2,545	-	-	2,545
Share rights exercised	-	1,317	-	(1,473)	156	-	-
Dividends paid	-	-	-	-	(68,463)	(370)	(68,833)
Treasury stock dividends received	-	-	-	-	353	-	353
Purchase of treasury stock	-	(2,939)	-	-	-	-	(2,939)
Minority interest arising on acquisition of subsidiaries	-	-	-	-	-	11,293	11,293
Balance at the end of the period	251,445	(7,361)	(564)	3,281	153,228	11,736	411,765
	(note: 30)	(note: 30)	(note: 31)	(note: 31)	(note: 33)	(note: 32)	
For the 52 week period ended 29 July 2012							
Balance at the beginning of the period	251,445	(7,385)	(24,104)	2,812	48,447	325	271,540
Profit for the period	-	-	-	-	89,848	312	90,160
Net change in fair value of cash flow hedges	-	-	16,889	-	-	-	16,889
Total comprehensive income	-	-	16,889	-	89,848	312	107,049
Contributions by and distributions to owners:							
Share based payments charged to the income statement	-	-	-	1,616	-	-	1,616
Share rights exercised	-	2,096	-	(2,219)	123	-	-
Dividends paid	-	-	-	-	(62,239)	(404)	(62,643)
Treasury stock dividends received	-	-	-	-	255	-	255
Purchase of treasury stock	-	(450)	-	-	-	-	(450)
Balance at the end of the period	251,445	(5,739)	(7,215)	2,209	76,434	233	317,367
	(note: 30)	(note: 30)	(note: 31)	(note: 31)	(note: 33)	(note: 32)	
PARENT							
					SHARE CAPITAL	RETAINED EARNINGS	TOTAL EQUITY
					\$000	\$000	\$000
For the 52 week period ended 28 July 2013							
Balance at the beginning of the period					251,445	10,877	262,322
Total comprehensive income					-	68,461	68,461
Dividends paid					-	(68,463)	(68,463)
Balance at the end of the period					251,445	10,875	262,320
					(note: 30)	(note: 33)	
For the 52 week period ended 31 July 2012							
Balance at the beginning of the period					251,445	10,882	262,327
Total comprehensive income					-	62,234	62,234
Dividends paid					-	(62,239)	(62,239)
Balance at the end of the period					251,445	10,877	262,322
					(note: 30)	(note: 33)	

The accompanying statement of accounting policies and notes to the financial statements on pages 40 to 70 form an integral part of the financial statements.

Notes to and forming part of the Financial Statements

FOR THE 52 WEEK PERIOD ENDED 28 JULY 2013

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 stock exchange. 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 30 July 2012 to 28 July 2013. The prior full year comparative represents the 52 week period commencing 1 August 2011 to 29 July 2012.

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 company has the power to govern the financial and operating policies to obtain benefits generally accompanying a shareholding of more than one half of the voting rights. Subsidiaries are fully consolidated from the date on which control is transferred to the Group and are not consolidated from the date that control ceases.

The Group financial statements consolidate the financial statements of subsidiaries, using the acquisition method.

The acquisition method of accounting is used to account for the acquisition of subsidiaries and businesses by the Group. The consideration transferred in a business is measured at fair value, which is calculated as the sum of the acquisition-date fair value of the assets transferred by the acquirer, the liabilities incurred by the acquirer to former owners of the acquiree and the equity interest issued by the acquirer. It includes any asset or liability arising from a contingent consideration arrangement. Acquisition related costs are expensed as incurred. Each identifiable asset and liability is generally measured at its acquisition-date fair value except if an NZ IFRS requires another measurement basis. The excess of the consideration transferred over the Group's share of the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed is recognised as goodwill. If the consideration transferred is less than the acquisition-date fair value of identifiable assets acquired and liabilities assumed, a gain is recognised directly in the income statement.

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.

(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.

Notes to and forming part of the Financial Statements – continued

FOR THE 52 WEEK PERIOD ENDED 28 JULY 2013

1. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

(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

Subsidiaries are accounted for at cost less any impairment within the parent entity financial statements.

(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.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectable 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.

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in borrowings. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term.

(m) Intangible assets

Goodwill

Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration paid over the Groups interest in the fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of the minority interest in the acquiree.

For the purposes of impairment testing goodwill acquired in a business combination are allocated to each of the Group's cash generating units, or groups of cash generating units, that are expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the Group at which goodwill is monitored for internal management purposes. Goodwill is monitored at a level which is not larger than an operating segment.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell. Any impairment is recognised immediately as an expense and is not subsequently reversed.

Brand names

Brand names acquired in a business combination are recognised at fair value at the acquisition date. Brand names are considered to have indefinite useful lives as the Group have rights to use these names in perpetuity. The carrying value of Brand Names are tested for impairment annually or more frequently if events or changes in circumstances indicate potential impairment, and are carried at cost less accumulated impairment losses.

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, representing a period of between two to ten years. Amortisation commences once the computer software is available for use.

(n) Impairment of non-financial assets

Assets that have an indefinite useful life such as Goodwill and Brand names, as well as 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).

Notes to and forming part of the Financial Statements – continued

FOR THE 52 WEEK PERIOD ENDED 28 JULY 2013

1. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

(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 based compensation

The Group recognises a liability and an expense for performance based compensation (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.

(v) 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

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.

(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 nominal value of trade receivables and payables are assumed to approximate their fair values.

Notes to and forming part of the Financial Statements – continued

FOR THE 52 WEEK PERIOD ENDED 28 JULY 2013

1. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

(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) 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 can be 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.

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

(v) 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.

(w) 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.

(x) 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.

(y) Operating profit

Operating profit represents earnings before taxation and interest from continuing operations 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, release of warranty provisions and direct costs relating to the acquisition of subsidiaries.

(z) Adjusted net profit

Adjusted net profit (refer note 13) represents net profit attributable to shareholders of the Parent adjusted for the after tax effect of unusual items and discontinued operations.

(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:

NZ IFRS 13, 'Fair Value Measurement', effective for the Group from 29 July 2013, establishes a single source of guidance for measuring fair value and expands the current disclosure requirements. NZ IFRS 13 does not change when an entity is required to use fair value, but provides guidance on how to determine fair value when another NZ IFRS requires or permits an item to be measured at fair value. This standard is not expected to significantly impact the Group.

NZ IFRS 9, 'Financial Instruments', effective for the Group from 3 August 2015, this standard replaces parts of IAS 39 *Financial Instruments: Recognition and Measurement* that relates to the classification and measurement of financial instruments. All financial assets are required to be classified as being either measured at fair value or amortised cost. The determination is based on the entity's business model for managing the financial assets. For financial liabilities, the standard retains most of the current IAS 39 requirements. This standard is not expected to significantly impact the Group.

2. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

The Group has identified the following critical accounting policies for which significant judgements, estimates and assumptions are made.

(a) Taxation (note 12, 23, 24)

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

(b) Inventories (note 19)

Assessing provisions for inventory obsolescence, net realisable value and shrinkage involves making estimates and judgements in relation to future selling prices and expected shrinkage rates since the most recent stock count. 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.

(c) Derivative financial instruments (note 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).

(d) Intangible assets (note 26)

The Group has assessed if Goodwill and indefinite life Brand Names have suffered any impairment any impairment since they were acquired. The recoverable amounts of cash generating units are determined based on value in use calculations. These calculations require the use of estimates and projections of future operating performance. There is significant headroom between the value in use calculations and the carrying value of these intangible assets such that a reasonably possible change in the assumptions and estimates should not result in an impairment.

(e) Business combinations (note 38)

The Group acquired five subsidiaries during the year. As part of the acquisition accounting for the new subsidiaries the Group was required to determine the fair value of the assets and liabilities acquired. Judgements and estimates were required to determine the fair value of the assets and liabilities acquired. Where it was considered appropriate external advisors were used to assist in determining the fair values.

Notes to and forming part of the Financial Statements – continued

FOR THE 52 WEEK PERIOD ENDED 28 JULY 2013

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 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.

Last year, the Group reviewed its property holdings to determine whether it should continue to own or lease a number of these properties. The outcome of the review resulted in the Group deciding to sell five properties which generated sales proceeds of \$194.182 million. The sale proceeds were reinvested as part of the Group's growth strategy and funded the acquisition of five new subsidiaries (refer note: 38) and the continued reinvestment into the Group's store modernisation programme.

The Group will continue to review its capital management strategy as a means to fund further growth initiatives.

(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	2013	2012
Book gearing ratio		
Total borrowings (\$000)	239,637	228,979
Total equity (\$000)	411,765	317,367
Gearing ratio (%)	36.8	41.9
Interest cover		
Net interest expense (\$000)	11,675	10,308
Operating profit (\$000)	111,238	96,462
Interest cover (times)	9.5	9.4

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

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 and interest rate risk). The Group's overall risk management programme focuses on the uncertainty of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

The Group enters into derivative transactions, principally interest rate swaps and forward currency contracts. The purpose is to manage the interest rate and currency fluctuation risks arising from the Group's 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 increase 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). To accommodate the increased funding requirements during the peak funding period the Group has committed three month seasonal credit facilities commencing in mid September of \$50.000 million (2012: \$50.000 million) which are in addition to the committed credit facilities detailed below.

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

GROUP	2013	2012
	\$000	\$000
ANZ National Bank	113,000	53,000
Bank of New Zealand	40,000	40,000
Bank of Tokyo-Mitsubishi	20,000	20,000
Hong Kong and Shanghai Bank	30,000	30,000
Westpac	85,000	85,000
	288,000	228,000

Notes to and forming part of the Financial Statements – continued

FOR THE 52 WEEK PERIOD ENDED 28 JULY 2013

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Liquidity risk (continued)

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

GROUP	NOTE	DEBT FACILITIES		LETTERS OF CREDIT		TOTAL FACILITIES	
		2013	2012	2013	2012	2013	2012
		\$000	\$000	\$000	\$000	\$000	\$000
6 months or less		20,000	20,000	10,000	10,000	30,000	30,000
6 to 12 months		90,000	90,000	18,000	18,000	108,000	108,000
1 to 3 years		40,000	–	–	–	40,000	–
Over 3 years		110,000	90,000	–	–	110,000	90,000
		260,000	200,000	28,000	28,000	288,000	228,000
Facilities utilised	29, 40	135,336	128,203	14,853	12,622	150,189	140,825
Unused facilities available		124,664	71,797	13,147	15,378	137,811	87,175
Percentage utilisation		52.1%	64.1%	53.0%	45.1%	52.1%	61.8%

(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 ASSET/(LIABILITY)	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 28 July 2013							
Financial liabilities							
Trade and other payables (excluding contingent consideration)	20	251,967	–	–	–	–	251,967
Contingent consideration	20	4,000	1,950	6,559	6,250	3,000	21,759
Bank borrowings (excluding finance lease liabilities)	29	133,830	–	–	–	–	133,830
Finance lease liabilities	29	953	869	1,470	1,359	1,280	5,931
Fixed rate senior bond	29	2,797	3,685	107,370	–	–	113,852
		393,547	6,504	115,399	7,609	4,280	527,339
Net derivatives							
Forward currency contracts							
– outflow		139,783	60,905	–	–	–	200,688
– inflow		(139,739)	(60,595)	–	–	–	(200,334)
Interest rate swaps		232	106	143	338	395	1,214
		276	416	143	338	395	1,568
At 29 July 2012							
Financial liabilities							
Trade and other payables	20	126,857	–	–	–	–	126,857
Bank borrowings (excluding finance lease liabilities)	29	128,203	–	–	–	–	128,203
Fixed rate senior bond	29	2,776	3,685	7,370	107,370	–	121,201
		257,836	3,685	7,370	107,370	–	376,261
Net derivatives							
Forward currency contracts							
– outflow		133,100	48,978	–	–	–	182,078
– inflow		(128,260)	(46,908)	–	–	–	(175,168)
Interest rate swaps		517	517	335	199	1,612	3,180
		5,357	2,587	335	199	1,612	10,090

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 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 effective at balance date. As the derivative and lease cash flows included in the above table represent undiscounted cash flows, these amounts will not reconcile to the carrying values for these items disclosed in the balance sheet.

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 \$0.888 million (2012: \$0.909 million) interest accrual which is included as part of trade and other payables.

(ii) Maturity analysis based on management's expectation

The Group's expectation of the future 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 by way of ninety day short term bills. The bank borrowings include \$50.000 million which is fully drawn against a term debt facility which expires in March 2017. These borrowings and the Group's fixed rate senior bond are designated as the Group's “core” borrowings for treasury management purposes. It is the Group'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.

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

Notes to and forming part of the Financial Statements – continued

FOR THE 52 WEEK PERIOD ENDED 28 JULY 2013

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 73% (2012: 73%) 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
At 28 July 2013		\$000	\$000	\$000	\$000	\$000
Cash and cash equivalents	18	22,763	164	164	(164)	(164)
Bank borrowings (excluding finance lease liabilities)	29	(133,830)	(964)	(964)	964	964
Fixed rate senior bond	29	(100,620)	488	488	(500)	(500)
Derivative financial instruments						
Interest rate swaps – cash flow hedges	22	(2,445)	360	1,608	(360)	(1,664)
Interest rate swaps – fair value hedges	22	1,315	(288)	(776)	288	788
		(212,817)	(240)	520	228	(576)
At 29 July 2012						
Cash and cash equivalents	18	16,286	117	117	(117)	(117)
Bank borrowings	29	(128,203)	(923)	(923)	923	923
Fixed rate senior bond	29	(100,776)	500	500	(522)	(522)
Derivative financial instruments						
Interest rate swaps – cash flow hedges	22	(4,796)	216	1,675	(216)	(1,760)
Interest rate swaps – fair value hedges	22	1,689	(500)	(500)	522	522
		(215,800)	(590)	869	590	(954)

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 for The Warehouse and Warehouse Stationery segments 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.

The Group's acquisition of Torpedo7 and Insight (refer note 38) increased the Group's exposure to foreign exchange risk which arise primarily from the purchase of inventory from overseas. The Group is currently reviewing the treasury policy to determine an appropriate hedge strategy to hedge these new exposures.

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

GROUP ASSET/(LIABILITY)	NOTE	CARRYING AMOUNT		NOTIONAL AMOUNT	
		2013	2012	2013	2012
Forward currency contracts – cash flow hedges		\$000	\$000	NZ\$000	NZ\$000
Buy US dollars/Sell New Zealand dollars	22	1,500	(5,358)	200,688	182,078

The average exchange rate of US dollar forward contracts at balance date were \$0.8072 (2012: \$0.7794). The spot rate used to determine the mark-to-market carrying value of the US dollar forward contracts at balance date was \$0.8087 (2012: \$0.8101).

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 for The Warehouse and Warehouse Stationery segments. At balance date the Group has US dollar hedges in place to cover 64.8% (2012: 62.0%) of the forecast annual direct US dollar exposure for these segments.

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)	
	2013	2012	2013	2012
	\$000	\$000	\$000	\$000
10% appreciation in the New Zealand dollar	–	–	(13,098)	(11,448)
10% depreciation in the New Zealand dollar	–	–	16,009	13,992

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

Notes to and forming part of the Financial Statements – continued

FOR THE 52 WEEK PERIOD ENDED 28 JULY 2013

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, derivatives and transactions with financial institutions.

	NOTE	GROUP 2013	GROUP 2012	PARENT 2013	PARENT 2012
		\$000	\$000	\$000	\$000
Maximum exposures to credit risk at balance date are:					
Cash and cash equivalents	18	22,763	16,286	2,517	2,520
Trade and other receivables	21	69,887	28,455	-	-
Derivative financial instruments	22	3,802	2,489	-	-
Intercompany advances		-	-	317,509	317,211
Investment in associate company	27	5,671	6,372	-	-
		102,123	53,602	320,026	319,731

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 Group's treasury policy specifies maximum credit limits for each bank counter-party and requires bank counter-parties to have a minimum Standard & Poor's credit rating of at least A (2012: A).

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 and interest-rate 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

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

Level 1 – quoted prices in active markets for identical assets or liabilities

Level 2 – inputs other than quoted within level 1 that are observable for the asset or liability, either directly or indirectly

Level 3 – inputs for the asset or liability that are not based on observable market data

GROUP ASSET/(LIABILITY)	NOTE	LEVEL 1 \$000	LEVEL 2 \$000	LEVEL 3 \$000	TOTAL \$000
At 28 July 2013					
Derivatives at fair value through profit or loss		-	1,315	-	1,315
Derivatives used for hedging		-	(945)	-	(945)
	22	-	370	-	370
At 29 July 2012					
Derivatives at fair value through profit or loss		-	1,689	-	1,689
Derivatives used for hedging		-	(10,154)	-	(10,154)
	22	-	(8,465)	-	(8,465)

The fair value of financial instruments that are not traded in an active market (such as over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

Specific valuation techniques used to value financial instruments include:

- 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.

Notes to and forming part of the Financial Statements – continued

FOR THE 52 WEEK PERIOD ENDED 28 JULY 2013

5. SEGMENT INFORMATION

GROUP	REVENUE		OPERATING PROFIT	
	2013	2012	2013	2012
	\$000	\$000	\$000	\$000
The Warehouse	1,591,088	1,524,102	85,186	80,874
Warehouse Stationery	231,838	206,639	10,321	9,844
Noel Leeming	390,667	–	11,011	–
Torpedo7	24,193	–	656	–
Other Group operations	9,688	8,664	4,064	5,744
Inter-segment eliminations	(7,942)	(7,237)	–	–
	2,239,532	1,732,168	111,238	96,462
Unallocated (expenses)/revenue				
Gain on disposal of property			77,368	18,230
Direct costs relating to acquisitions			(2,356)	–
Release of warranty provisions			–	7,355
Equity earnings of associate			3,464	3,197
Earnings before interest and tax			189,714	125,244
Net interest expense			(11,675)	(10,308)
Income tax expense			(28,423)	(24,776)
Net profit for the period from continuing operations			149,616	90,160
Loss from discontinued operations (net of tax)			(4,288)	–
Net profit for the period			145,328	90,160
Operating margin				
The Warehouse			5.4%	5.3%
Warehouse Stationery			4.5%	4.8%
Noel Leeming			2.8%	–
Torpedo7			2.7%	–
Total Group			5.0%	5.6%

(a) Operating segments

The Group has four 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 92 (2012: 89) stores located throughout New Zealand.

Warehouse Stationery

Warehouse Stationery is a stationery retailer, with 61 (2012: 56) stores located throughout New Zealand.

Noel Leeming

Noel Leeming is a consumer electronics and home appliances retailer, with 75 stores located throughout New Zealand. The trading results above represent the 8 month trading period following the Group's acquisition of Noel Leeming in December 2012.

Torpedo7

Torpedo7 is an online retailer operating through the Torpedo7, 1-day and Urbandaddy websites in New Zealand and Australia. The trading results above represent the 4 month trading period since the Group acquired a controlling 51% interest in Torpedo7 in April 2013.

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	
		2013	2012	2013	2012
		\$000	\$000	\$000	\$000
The Warehouse		33,207	33,726	59,090	46,291
Warehouse Stationery		5,455	5,435	12,628	5,262
Noel Leeming		3,040	–	4,341	–
Torpedo7		321	–	2,751	–
Other Group operations		1,994	2,469	17,996	56,211
Continuing operations		44,017	41,630	96,806	107,764
Discontinued operations	37	208	–	–	–
		44,225	41,630	96,806	107,764
Comprising					
Property, plant and equipment	25	38,154	34,293	92,703	104,412
Intangible assets	26	6,071	7,337	4,103	3,352
		44,225	41,630	96,806	107,764

Notes to and forming part of the Financial Statements – continued

FOR THE 52 WEEK PERIOD ENDED 28 JULY 2013

5. SEGMENT INFORMATION (CONTINUED)

(c) Balance sheet segment information

GROUP	TOTAL ASSETS		TOTAL LIABILITIES	
	2013	2012	2013	2012
	\$000	\$000	\$000	\$000
The Warehouse	485,569	393,898	171,023	135,013
Warehouse Stationery	76,695	64,747	26,588	23,867
Noel Leeming	107,326	–	109,292	–
Torpedo7	21,957	–	18,182	–
Other Group operations	154,409	247,837	5,297	12,626
Operating assets/liabilities	845,956	706,482	330,382	171,506
Unallocated assets/liabilities				
Discontinued operations	693	–	7,056	–
Cash and borrowings	22,763	16,286	239,637	228,979
Derivative financial instruments	3,802	2,489	3,432	10,954
Investments	5,671	6,372	–	–
Intangible goodwill and brands	95,428	–	–	–
Taxation assets/liabilities	21,425	2,425	3,466	5,248
Total	995,738	734,054	583,973	416,687

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

6. OTHER INCOME

GROUP	2013	2012
	\$000	\$000
Tenancy rents received	5,777	2,564
Insurance recoveries	1,415	630
Other	3,109	3,424
	10,301	6,618

During the year the Parent received dividends from subsidiaries of \$68.463 million (2012: \$62.239 million).

7. EMPLOYEE EXPENSES

GROUP	NOTE	2013	2012
		\$000	\$000
Wages and salaries		341,097	281,407
Director's fees	14	682	617
Performance incentive payments		11,301	4,691
Equity settled share based payments expense	31	2,545	1,616
		355,625	288,331

The Parent has no direct employees.

8. LEASE AND OCCUPANCY EXPENSES

GROUP	2013	2012
	\$000	\$000
Operating lease costs	84,961	62,864
Other occupancy costs	28,542	23,959
	113,503	86,823

The Parent has no lease or occupancy expenses.

Notes to and forming part of the Financial Statements – continued

FOR THE 52 WEEK PERIOD ENDED 28 JULY 2013

9. DEPRECIATION AND AMORTISATION EXPENSE

GROUP	NOTE	2013	2012
		\$000	\$000
Freehold buildings		1,792	2,284
Store fittings and equipment		29,982	25,903
Computer hardware		5,919	5,725
Vehicles		461	381
Property, plant and equipment	25	38,154	34,293
Intangible assets	26	6,071	7,337
Depreciation and amortisation expense		44,225	41,630
From continuing operations		44,017	41,630
From discontinued operations	37	208	–
Depreciation and amortisation expense		44,225	41,630

The Parent has no depreciable assets.

10. OTHER OPERATING EXPENSES

GROUP	NOTE	2013	2012
		\$000	\$000
Other operating expenses include			
Provision for bad and doubtful debts		908	156
Loss on sale of plant and equipment		3,965	1,538
Donations		366	240
Net foreign currency exchange (gain) / loss		132	(128)
Auditors' fees			
Auditing the Group financial statements		476	323
Reviewing the half year financial statements		84	75
Other audit services		34	16
Total fees paid to PricewaterhouseCoopers		594	414
Total internal audit fees paid to Ernst & Young		424	539

Fees paid to PricewaterhouseCoopers for other audit services related to limited assurance services provided on aspects of the Group's annual Sustainability Report and treasury policy advice. For information on the Group's policies regarding audit governance and independence refer to page 74 (Corporate Governance).

11. NET INTEREST EXPENSE

GROUP	NOTE	2013	2012
		\$000	\$000
Interest on bank overdrafts		92	38
Interest on bank borrowings		3,253	1,702
Interest on finance leases		135	–
Interest on fixed rate senior bond		7,661	7,640
Fair value interest rate swaps		(220)	(127)
Interest rate swap cash flow hedges transfer from equity	22	1,189	1,460
Interest expense		12,110	10,713
Interest received on bank deposits		135	155
Use of money interest		190	152
Employee share plan and related party advances		110	98
Interest income		435	405
Net interest expense		11,675	10,308

The Parent received intercompany interest of \$7.661 million (2012: \$7.640) 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 28 JULY 2013

12. INCOME TAX

Reconciliation between the tax expense recognised in the income statement and tax expense calculated per the statutory income tax rate:

	NOTE	GROUP 2013 \$000	GROUP 2012 \$000	PARENT 2013 \$000	PARENT 2012 \$000
Profit before tax from continuing operations		178,039	114,936	68,460	62,232
Loss before tax from discontinued operations	37	(5,956)	–	–	–
Profit before tax		172,083	114,936	68,460	62,232
Taxation calculated at 28%		48,183	32,182	19,169	17,425
Adjusted for the tax effect of:					
Non taxable dividends		–	–	(19,170)	(17,427)
Direct costs relating to acquisitions		660	–	–	–
Entertainment		324	301	–	–
Equity earnings of associate		(970)	(895)	–	–
Share based payments		344	(134)	–	–
Release of non taxable liabilities and provisions		–	(2,551)	–	–
Capital gain on property disposal		(12,413)	(3,370)	–	–
Other non deductible expenditure		1,022	325	–	–
Depreciation adjustment on building disposals	13	(10,127)	(846)	–	–
Income tax over provided in prior year		(268)	(236)	–	–
Income tax expense		26,755	24,776	(1)	(2)
From continuing operations		28,423	24,776	(1)	(2)
From discontinued operations	37	(1,668)	–	–	–
Income tax expense		26,755	24,776	(1)	(2)
Effective tax rate		15.5%	21.6%		
Income tax expense comprises:					
Current year income tax payable	23	40,395	29,936	(1)	(2)
Deferred taxation	24	(13,640)	(5,160)	–	–
		26,755	24,776	(1)	(2)

13. ADJUSTED NET PROFIT RECONCILIATION

GROUP	NOTE	2013 \$000	2012 \$000
Net profit attributable to shareholders of the Parent		144,748	89,848
Less: Unusual items			
Gain on disposal of property	25	77,368	18,230
Release of warranty provisions	28	–	7,355
Direct costs relating to acquisitions	38	(2,356)	–
		75,012	25,585
Income tax relating to unusual items		(9,800)	(1,734)
Income tax expense related to depreciation adjustment on building disposals	12	10,127	846
		75,339	24,697
Add back: Loss from discontinued operations (net of tax)	32	(4,288)	–
Adjusted net profit	34	73,697	65,151
Earnings per share based on adjusted net profit			
Basic earnings per share	16	23.8 cents	21.0 cents
Diluted earnings per share	16	23.7 cents	21.0 cents

Certain transactions can make the comparisons of profits between years difficult. The Group monitors adjusted net profit as a key indicator of performance and uses it as the basis for determining dividends and believe it helps improve the understanding of underlying business performance. The Group's dividend policy is to pay a dividend equal to 90% of adjusted net profit (refer note 34).

Adjusted net profit makes allowance for discontinued operations and the after tax effect of unusual items, which include profits from the disposal of properties, release of warranty provisions and the direct costs relating to the acquisition of subsidiaries.

Notes to and forming part of the Financial Statements – continued

FOR THE 52 WEEK PERIOD ENDED 28 JULY 2013

14. KEY MANAGEMENT PERSONNEL

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

GROUP NON-EXECUTIVE DIRECTORS	NOTE	DIRECTORS' FEES	
		2013 \$000	2012 \$000
G F Evans (Chairman)		160	155
K R Smith (Deputy Chairman)		115	115
A J Balfour (appointed October 2012)		75	-
R L Challinor (retired November 2011)		-	24
J H Ogden		86	84
J L Smith		83	81
Sir Stephen Tindall		79	77
E K van Arkel		84	81
	7	682	617

GROUP	CHIEF EXECUTIVE OFFICER		OTHER KEY EXECUTIVES	
	2013 \$000	2012 \$000	2013 \$000	2012 \$000
Base salary	1,200	1,016	4,755	4,468
Annual performance based compensation	474	-	859	69
Equity settled share based compensation	295	153	809	527
Termination benefits	-	-	-	1,188
	1,969	1,169	6,423	6,252

The remuneration of the Chief Executive Officer is not included in the remuneration disclosed for other key executives. Equity settled share-based compensation represents the annual expense recognised in the Income Statement for share rights granted to executives based on the fair value of the share rights measured at grant date, which is likely to be different from the market value of the share rights at the date when and if the share rights vest to the executives.

Key management held the following share rights at balance date (refer note 15 for plan details).

GROUP EXPECTED VESTING DATES	PERFORMANCE SHARES		AWARD SHARES		TOTAL SHARE RIGHTS	
	2013	2012	2013	2012	2013	2012
Chief Executive Officer	000	000	000	000	000	000
October 2012	-	35	-	68	-	103
October 2013	40	40	80	53	120	93
October 2014	91	91	69	43	160	134
October 2015	102	-	47	-	149	-
Outstanding at the end of the year	233	166	196	164	429	330
Other Key Executives						
October 2012	-	75	-	210	-	285
October 2013	80	119	242	187	322	306
October 2014	288	324	221	151	509	475
October 2015	335	-	156	-	491	-
Outstanding at the end of the year	703	518	619	548	1,322	1,066

During the year the Group's Chief Executive Officer, M D Powell was granted 244,000 (2012: 219,000) share rights, 98,000 (2012: 39,000) share rights were forfeited and 47,000 (2012: 31,000) share rights vested.

Other key executives were granted 804,000 (2012: 777,000) share rights, 280,000 (2012: 509,000) share rights were forfeited and 113,000 (2012: 273,000) share rights vested. Other key executives comprise the members of The Warehouse Leadership team and the Chief Executive Officers of both Warehouse Stationery and Noel Leeming. At balance date this represented 12 (2012: 12) executives.

Notes to and forming part of the Financial Statements – continued

FOR THE 52 WEEK PERIOD ENDED 28 JULY 2013

15. EXECUTIVE LONG TERM INCENTIVE PLAN (LTIP)

Share rights are granted to senior executives, who are selected by the Group's People and 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 50 (2012: 45) 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 transferred ordinary shares at the end of the vesting period if the Group's share price exceeds a specified target share price or a specified total shareholder return on the vesting date.

Target Share Price

The target share price for the plan is calculated by inflating the Group's share price at grant date using the Groups cost of equity over the period between the grant date and the vesting date and adjusting for dividend payments. The Groups share price at grant date is calculated using the weighted average market price of the Group's share price over the ten share trading days prior to grant date. The target share prices for the performance shares vesting in October 2013 is \$4.13.

Total Shareholder Return

The target total shareholder return is calculated in a similar manner to the target share price but represents only the increase in Group's share price over the period between the grant date and the vesting date, inflated from the grant date using the Groups cost of equity. The target shareholder return for the performance shares vesting in October 2014 and October 2015 is \$0.75 and \$0.96 respectively. The measurement of the actual total shareholder return will be calculated as the increase in the Group's share price over the vesting period plus the aggregate value of dividends paid during the period reinvested at the Group's cost of equity.

The estimated cost of equity is independently determined by external advisors and the target share price and target total shareholder return approved by the People and Remuneration Committee prior to granting the share rights.

(c) Summary of share rights granted under LTIP arrangements

GROUP	NOTE	PERFORMANCE SHARES		AWARD SHARES		TOTAL SHARE RIGHTS	
		2013	2012	2013	2012	2013	2012
		000	000	000	000	000	000
Outstanding at the beginning of the year		1,404	1,282	1,376	1,067	2,780	2,349
Granted during the year		871	806	1,219	1,129	2,090	1,935
Vested during the year	30	-	-	(355)	(482)	(355)	(482)
Forfeited during the year		(365)	(684)	(589)	(338)	(954)	(1,022)
Outstanding at the end of the year		1,910	1,404	1,651	1,376	3,561	2,780
Expected vesting dates							
October 2012		-	264	-	531	-	795
October 2013		310	334	662	469	972	803
October 2014		739	806	583	376	1,322	1,182
October 2015		861	-	406	-	1,267	-
Outstanding at the end of the year		1,910	1,404	1,651	1,376	3,561	2,780

Award shares granted during the year represent the maximum potential number of conditional rights which can be allotted 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 People and Remuneration Committee. Any adjustment to the number of share rights granted is included as a forfeiture 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 and the People and Remuneration Committee approves the early vesting of the share rights. In the event of a change in control the People and Remuneration Committee has the discretion to bring forward the vesting dates of the share rights.

(d) Fair values

The fair value of performance shares at grant date have been independently estimated using a variant of the Binomial Options Pricing Model. The fair 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 equity and allowing for expected future dividends. The following table lists the key inputs used in the various pricing models:

Performance shares

Date granted	October 2012	April 2012	October 2010
Vesting date	October 2015	October 2014	October 2013
Risk free interest rate (%)	2.66	3.28	4.18
Average expected volatility (%)	20.00	22.50	25.00
Average share price at measurement date (\$)	2.95	2.74	3.81
Estimated fair value at grant date (\$)	0.71	0.76	1.30

Award shares

Date granted	October 2012	April 2012	October 2010
First vesting date (then annually on the next two anniversaries)	October 2013	October 2012	October 2011
Weighted average cost of equity capital (%)	9.90	10.10	9.60
Average share price at measurement date (\$)	2.95	2.74	3.81
Average estimated fair values at grant date (\$)	2.56	2.44	3.34

Notes to and forming part of the Financial Statements – continued

FOR THE 52 WEEK PERIOD ENDED 28 JULY 2013

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	NOTE	2013	2012
Profit from continuing operations attributable to shareholders of the Parent (\$000s)		149,036	89,848
Profit from discontinued operations attributable to shareholders of the Parent (\$000s)		(4,288)	–
Net profit attributable to shareholders of the Parent (\$000s)		144,748	89,848
Adjusted net profit attributable to shareholders of the Parent (\$000s)	13	73,697	65,151
Basic			
Weighted average number of ordinary shares on issue (000s)		311,196	311,196
Adjustment for treasury stock (000s)		(1,517)	(1,496)
Weighted average number of ordinary shares outstanding (000s)		309,679	309,700
Basic earnings per share from continuing operations (cents)		48.1	29.0
Basic earnings per share from discontinued operations (cents)		(1.4)	–
Basic earnings per share (cents)		46.7	29.0
Adjusted basic earnings per share (cents)	13	23.8	21.0

(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	NOTE	2013	2012
Diluted			
Weighted average number of ordinary shares outstanding (000s)		309,679	309,700
Shares deemed to be issued for no consideration in respect of share rights (000s)		1,742	774
Weighted average number of ordinary shares for diluted earnings per share (000s)		311,421	310,474
Diluted earnings per share from continuing operations (cents)		47.9	28.9
Diluted earnings per share from discontinued operations (cents)		(1.4)	–
Diluted earnings per share (cents)		46.5	28.9
Adjusted diluted earnings per share (cents)	13	23.7	21.0

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	2013	2012
Net assets (\$000s)		411,765	317,367
Basic			
Number of ordinary shares on issue (000s)	30	311,196	311,196
Adjustment for treasury stock (000s)	30	(1,878)	(1,400)
Number of ordinary shares outstanding (000s)		309,318	309,796
Net assets per share (cents)		133.1	102.4

Notes to and forming part of the Financial Statements – continued

FOR THE 52 WEEK PERIOD ENDED 28 JULY 2013

18. CASH AND CASH EQUIVALENTS

	GROUP		PARENT	
	2013	2012	2013	2012
	\$000	\$000	\$000	\$000
Cash on hand and at bank	22,763	16,286	2,517	2,520

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 days' store sales, which have been paid by EFTPOS, remain uncleared at balance date.

19. INVENTORIES

GROUP	2013	2012
	\$000	\$000
Finished goods	423,995	286,691
Inventory adjustments	(15,710)	(11,097)
Retail stock	408,285	275,594
Goods in transit from overseas	49,824	33,827
	458,109	309,421

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	NOTE	2013	2012
		\$000	\$000
Trade creditors		192,047	84,406
Goods in transit creditors		18,423	13,441
Capital expenditure creditors		4,841	6,230
Goods and services tax		12,471	3,080
Unearned income (includes laybys, gift vouchers, BizReward points and Christmas club deposits)		11,262	9,125
Contingent consideration	38	21,759	-
Interest accruals		1,180	1,317
Payroll accruals		11,743	9,258
		273,726	126,857
Less: Non-current contingent consideration		(15,809)	-
Current trade and other payables		257,917	126,857

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. Contingent consideration for the acquisition of subsidiaries is payable over the next four years (the timing of these payments is disclosed in notes 4(a) and 38). With the exception of an interest accrual for \$0.888 million (2012: \$0.909 million) relating to interest payable on the fixed rate senior bond the Parent has no other payables.

21. TRADE AND OTHER RECEIVABLES

GROUP	CURRENT		NON-CURRENT		TOTAL	
	2013	2012	2013	2012	2013	2012
	\$000	\$000	\$000	\$000	\$000	\$000
Trade receivables	42,865	17,781	-	-	42,865	17,781
Allowance for impairment	(1,078)	(709)	-	-	(1,078)	(709)
	41,787	17,072	-	-	41,787	17,072
Other debtors and prepayments	15,159	9,996	-	-	15,159	9,996
Landlord advances	9,071	-	-	-	9,071	-
Advances to related parties	10	-	3,000	-	3,010	-
Employee share purchase plan loans	486	499	374	888	860	1,387
	66,513	27,567	3,374	888	69,887	28,455

(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.

Notes to and forming part of the Financial Statements – continued

FOR THE 52 WEEK PERIOD ENDED 28 JULY 2013

21. TRADE AND OTHER RECEIVABLES (CONTINUED)

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 uncollectable 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.

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

GROUP	TOTAL	0 TO 30	31 TO 60	61 TO 90	> 90
	\$000	DAYS	DAYS	DAYS	DAYS
	\$000	\$000	\$000	\$000	\$000
At 28 July 2013					
Trade receivables	42,865	33,823	4,753	1,451	2,838
Allowance for impairment	(1,078)	(110)	(20)	(135)	(813)
	41,787	33,713	4,733	1,316	2,025
At 29 July 2012					
Trade receivables	17,781	13,745	2,586	793	657
Allowance for impairment	(709)	(15)	(8)	(147)	(539)
	17,072	13,730	2,578	646	118

(b) Landlord advances

Short-term advances have been provided to certain landlords to enable them to complete the renovation and extension of stores and distribution centres leased by the Group. These loans are repayable either on demand or when the works are completed.

(c) Advances to related parties

An advance was provided to certain minority shareholders of the Torpedo7 group as a prepayment of contingent consideration related to the sale and purchase of the group (refer note 38). The advance has a principal of \$3.000 million with a 4.0% interest rate which is payable quarterly and is secured over the vendors' minority shares held in the Torpedo7 group. When the vendors become entitled to contingent consideration these funds will be firstly applied to repayment of the advance.

(d) Employee share purchase plan

GROUP	NOTE	ORDINARY SHARES	
		2013	2012
		000	000
Opening balance		859	929
Shares redeemed		(11)	(7)
Shares forfeited	30	(54)	(63)
Closing balance		794	859

The Group allotted shares to team members in May 2010 as part of 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 worked more than 15 hours per week. The offer (\$3.06) was priced at a 20% discount to the market share price with a maximum consideration 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 commenced from May 2013 and continues through to May 2015.

Shares were allotted 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 30.)

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

GROUP	NOTE	ORDINARY SHARES	
		2013	2012
		000	000
Allocated to employee share purchase plan		794	859
Unallocated treasury stock	30	1,878	1,400
Total ordinary shares held by the Group's Trustees		2,672	2,259
Percentage of share capital		0.86%	0.73%

The Parent has no trade or other receivables.

Notes to and forming part of the Financial Statements – continued

FOR THE 52 WEEK PERIOD ENDED 28 JULY 2013

22. DERIVATIVE FINANCIAL INSTRUMENTS

GROUP ASSET/(LIABILITY)	CURRENCY CONTRACTS	INTEREST RATE SWAPS	TOTAL DERIVATIVES
	\$000	\$000	\$000
At 28 July 2013			
Current assets	2,487	-	2,487
Non-current assets	-	1,315	1,315
Current liabilities	(987)	(579)	(1,566)
Non-current liabilities	-	(1,866)	(1,866)
	1,500	(1,130)	370
At 29 July 2012			
Non-current assets	-	2,489	2,489
Current liabilities	(5,358)	(800)	(6,158)
Non-current liabilities	-	(4,796)	(4,796)
	(5,358)	(3,107)	(8,465)

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 12 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 FORWARD CURRENCY CONTRACTS – CASH FLOW HEDGES	NOTIONAL AMOUNT		AVERAGE EXCHANGE RATE	
	2013 NZ\$000	2012 NZ\$000	2013 \$	2012 \$
Buy US dollars/Sell New Zealand dollars				
Maturity 0 to 6 months	139,783	133,100	0.8084	0.7806
Maturity 7 to 12 months	60,905	48,978	0.8045	0.7759

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	2013 \$000	2012 \$000
Cash flow hedges	(2,445)	(4,796)
Fair value hedges	1,315	1,689
	(1,130)	(3,107)

(i) Interest rate swaps – cash flow hedges

The Group's core bank borrowings bear an interest rate priced 1.00% (2012: 1.00%) above the bank bill mid rate (BKBM). In order to protect against rising interest rates the Group has entered interest rate swap contracts where 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 INTEREST RATE SWAPS – CASH FLOW HEDGES	NOTIONAL AMOUNT		AVERAGE FIXED RATE	
	2013 \$000	2012 \$000	2013 %	2012 %
Maturity				
3 to 4 Years	30,000	-	4.91	-
4 to 5 Years	20,000	30,000	5.93	5.09
5 to 6 Years	-	20,000	-	6.04
	50,000	50,000	5.29	5.46

Notes to and forming part of the Financial Statements – continued

FOR THE 52 WEEK PERIOD ENDED 28 JULY 2013

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 (2012: \$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 Group's 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	2013 \$000	2012 \$000
Gains/(losses) on fixed rate senior bond	467	(1,336)
Gains/(losses) on interest rate swaps	(467)	1,336

(c) Cash flow hedge reserve

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

GROUP	NOTE	CURRENCY CONTRACTS \$000	INTEREST RATE SWAPS \$000	DEFERRED TAXATION \$000	HEDGE RESERVE \$000
For the 52 week period ended 28 July 2013					
Opening balance		(5,358)	(4,662)	2,805	(7,215)
Transferred to inventory		10,373	-	(2,904)	7,469
Transferred to interest expense	11	-	1,189	(333)	856
Transferred to equity		(3,515)	1,190	651	(1,674)
Closing balance		1,500	(2,283)	219	(564)
				(note: 24)	(note: 31)
For the 52 week period ended 29 July 2012					
Opening balance		(30,867)	(2,609)	9,372	(24,104)
Transferred to inventory		13,161	-	(3,685)	9,476
Transferred to interest expense	11	-	1,460	(596)	864
Transferred to equity		12,348	(3,513)	(2,286)	6,549
Closing balance		(5,358)	(4,662)	2,805	(7,215)
				(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).

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 28 JULY 2013

23. CURRENT TAXATION

The movement in income tax receivable is set out below:

ASSET/(LIABILITY)	NOTE	GROUP	GROUP	PARENT	PARENT
		2013	2012	2013	2012
		\$000	\$000	\$000	\$000
Opening balance		(5,248)	(7,202)	603	1,034
Acquisition of subsidiaries	38	779	-	-	-
Current year income tax payable	12	(40,395)	(29,936)	1	2
Net taxation paid		40,803	31,291	-	-
Supplementary dividend tax credit		595	601	595	601
Use of money interest and other adjustments		-	(2)	(603)	(1,034)
Closing balance		(3,466)	(5,248)	596	603

24. DEFERRED TAXATION

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

GROUP	NOTE	OPENING	CHARGED	CHARGED	ACQUISITION	CLOSING
ASSET/(LIABILITY)		BALANCE	TO PROFIT	TO EQUITY	OF SUBSIDIARY	BALANCE
		\$000	\$000	\$000	\$000	\$000
For the 52 week period ended 28 July 2013						
Gross deferred tax assets						
Inventory		7,287	671	-	1,118	9,076
Deferred income		603	342	-	148	1,093
Employee benefit provisions		8,996	362	-	1,325	10,683
Impaired receivables		199	26	-	77	302
Other provisions		2,254	(326)	-	2,665	4,593
Plant and equipment depreciation and software amortisation		4,525	192	-	2,572	7,289
Derivatives – cash flow hedges	22	2,805	-	(2,586)	-	219
Other		14	231	-	41	286
		26,683	1,498	(2,586)	7,946	33,541
Gross deferred tax liabilities						
Building depreciation		(24,131)	12,166	-	-	(11,965)
Other		(127)	(24)	-	-	(151)
		(24,258)	12,142	-	-	(12,116)
Net deferred tax assets / (liabilities)		2,425	13,640	(2,586)	7,946	21,425

(note: 12)

(note: 38)

For the 52 week period ended 29 July 2012

Gross deferred tax assets

Inventory		5,946	1,341	-	-	7,287
Deferred income		341	262	-	-	603
Employee benefit provisions		8,788	208	-	-	8,996
Impaired receivables		191	8	-	-	199
Other provisions		1,540	714	-	-	2,254
Plant and equipment depreciation and software amortisation		3,300	1,225	-	-	4,525
Derivatives – cash flow hedges	22	9,372	-	(6,567)	-	2,805
Other		101	(87)	-	-	14
		29,579	3,671	(6,567)	-	26,683

Gross deferred tax liabilities

Building depreciation		(25,668)	1,537	-	-	(24,131)
Other		(79)	(48)	-	-	(127)
		(25,747)	1,489	-	-	(24,258)

Net deferred tax assets

		3,832	5,160	(6,567)	-	2,425
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(note: 12)

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 28 JULY 2013

25. 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	FREEHOLD	STORE	COMPUTER	VEHICLES	WORK IN	TOTAL
		LAND	BUILDINGS	FITTINGS AND EQUIPMENT	HARDWARE		PROGRESS	
		\$000	\$000	\$000	\$000	\$000	\$000	\$000
For the 52 week period ended 28 July 2013								
Opening carrying amount		83,916	100,384	95,068	11,825	1,379	62,655	355,227
Acquisition of subsidiaries	38	-	-	9,548	4,363	243	748	14,902
Additions	5	6,485	72,619	52,244	10,286	1,620	(50,551)	92,703
Disposals		(11,845)	(102,004)	(3,747)	(737)	(743)	-	(119,076)
Depreciation	5, 9	-	(1,792)	(29,982)	(5,919)	(461)	-	(38,154)
Closing carrying amount		78,556	69,207	123,131	19,818	2,038	12,852	305,602
At 28 July 2013								
Cost		78,556	82,224	385,760	93,707	3,072	12,852	656,171
Accumulated depreciation		-	(13,017)	(262,629)	(73,889)	(1,034)	-	(350,569)
Net carrying amount		78,556	69,207	123,131	19,818	2,038	12,852	305,602
For the 52 week period ended 29 July 2012								
Opening carrying amount		87,034	110,358	76,848	13,247	987	9,192	297,666
Additions	5	-	155	45,301	4,437	1,056	53,463	104,412
Disposals		(3,118)	(7,845)	(1,178)	(134)	(283)	-	(12,558)
Depreciation	5, 9	-	(2,284)	(25,903)	(5,725)	(381)	-	(34,293)
Closing carrying amount		83,916	100,384	95,068	11,825	1,379	62,655	355,227
At 29 July 2012								
Cost		83,916	125,959	354,166	86,358	2,653	62,655	715,707
Accumulated depreciation		-	(25,575)	(259,098)	(74,533)	(1,274)	-	(360,480)
Net carrying amount		83,916	100,384	95,068	11,825	1,379	62,655	355,227
At 31 July 2011								
Cost		87,034	134,930	312,990	82,292	2,511	9,192	628,949
Accumulated depreciation		-	(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

(a) 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 \$183.814 million (2012: \$284.812 million). The Directors' valuation was approved by the Board on 12 September 2013. 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	
	2013	2012	2013	2012
	\$000	\$000	\$000	\$000
Freehold land and buildings				
Support offices	9,951	10,322	23,000	23,000
Distribution centres	-	34,370	-	89,080
Stores	87,577	103,357	101,703	125,654
Development assets	50,235	36,251	59,111	47,078
Total freehold land and buildings	147,763	184,300	183,814	284,812

Stores comprise seven (2012: ten) store sites located throughout New Zealand. Development assets include five (2012: four) Auckland properties and a property in Timaru.

(b) Property disposals

During the year as part of a capital management programme a number of Group owned properties were sold on sale and lease back terms to fund the Group's growth strategy. The property disposals included three stores (located in Queenstown, Snells Beach and Palmerston North), the Group's distribution centre located in Wiri (Auckland) and a Retail Centre in Silverdale. The disposals generated net sale proceeds of \$194.182 million and realised pre-tax profits of \$77.368 million (including disposal related costs).

In the comparative the year the Group sold a Distribution Centre at Puhinui Road, Auckland and a Warehouse store located in Invercargill, together these two properties realised a pre-tax profit of \$18.230 million.

(c) Impairment review

The Group annually reviews 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 (2012: nil). The reviews identified some assets where the expected future useful life was shorter than originally assessed, which caused the depreciation of these assets to be accelerated.

The Parent has no property, plant and equipment.

Notes to and forming part of the Financial Statements – continued

FOR THE 52 WEEK PERIOD ENDED 28 JULY 2013

26. INTANGIBLE ASSETS

Reconciliations of the carrying amounts of intangible assets at the beginning and end of the year are set out below:

GROUP	NOTE	GOODWILL	BRAND NAMES	COMPUTER SOFTWARE	TOTAL
		\$000	\$000	\$000	\$000
For the 52 week period ended 28 July 2013					
Opening carrying amount		-	-	13,379	13,379
Acquisition of subsidiaries	38	71,905	23,523	1,769	97,197
Additions	5	-	-	4,103	4,103
Disposals		-	-	(129)	(129)
Amortisation	5, 9	-	-	(6,071)	(6,071)
Closing carrying amount		71,905	23,523	13,051	108,479
At 28 July 2013					
Cost		71,905	23,523	79,665	175,093
Accumulated amortisation		-	-	(66,614)	(66,614)
Net carrying amount		71,905	23,523	13,051	108,479
For the 52 week period ended 29 July 2012					
Opening carrying amount		-	-	18,432	18,432
Additions	5	-	-	3,352	3,352
Disposals		-	-	(1,068)	(1,068)
Amortisation	5, 9	-	-	(7,337)	(7,337)
Closing carrying amount		-	-	13,379	13,379
At 29 July 2012					
Cost		-	-	74,194	74,194
Accumulated amortisation		-	-	(60,815)	(60,815)
Net carrying amount		-	-	13,379	13,379
At 31 July 2011					
Cost		-	-	72,882	72,882
Accumulated amortisation		-	-	(54,450)	(54,450)
Net carrying amount		-	-	18,432	18,432

The Parent has no Intangible assets.

(a) Impairment tests for intangible assets with indefinite lives

Goodwill and brand names are allocated to the Group's cash generating units identified below:

GROUP	NOEL LEEMING	TORPEDO7	INSIGHT TRADERS	SHOP IQ	COMPLETE ENTERTAINMENT	TOTAL
	\$000	\$000	\$000	\$000	\$000	\$000
At 28 July 2013						
Goodwill	25,888	22,091	11,750	2,476	9,700	71,905
Brand Names	15,500	8,023	-	-	-	23,523
Net carrying amount	41,388	30,114	11,750	2,476	9,700	95,428

The recoverable amount of a cash generating unit (CGU) is determined based on value in use calculations. These calculations use cashflow projections based on financial budgets and strategic plans approved by management and Directors covering a five year period. Cashflows beyond the five year period are extrapolated using the estimated growth rates stated below. The growth rate does not exceed the long term average growth rate for the business in which the CGU operates. There is a surplus between the carrying value of indefinite life intangible assets and the value in use calculations.

(b) Key assumptions

The key assumptions used for value in use calculations are as follows:

GROUP	NOEL LEEMING	TORPEDO7	REMAINING CGUS
At 28 July 2013			
EBIT Margin	3.0%	8.0%	7 to 12%
Growth rate	2.5%	3.0%	2.5%
Post-tax discount rate	11.8%	12.7%	13.5%

The weighted average growth rates used are consistent with the forecasts in market and industry reports. The discount rates used are post-tax and reflect specific risks relating to the relevant operating segments. The Group does not expect a reasonably possible change in the key assumptions would reduce the recoverable amount below the carrying amount.

Notes to and forming part of the Financial Statements – continued

FOR THE 52 WEEK PERIOD ENDED 28 JULY 2013

27. INVESTMENTS

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

GROUP	2013	2012
	\$000	\$000
Opening balance	6,372	7,585
Share of associate's profit before taxation	4,812	4,471
Less taxation	(1,348)	(1,274)
Equity earnings of associate	3,464	3,197
Distributions received	(4,165)	(4,410)
Closing balance	5,671	6,372

(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 online, 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 2012 and unaudited management accounts for the ten month period ended 31 July 2013.

(b) Summarised financial information

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

	2013	2012
	\$000	\$000
Extract from the associates balance sheet		
Loans	66,303	69,042
Other assets	15,499	17,544
	81,802	86,586
Liabilities	(70,229)	(73,582)
Net assets	11,573	13,004
Share of associates net assets	5,671	6,372
Extract from associates income statement		
Operating income	15,501	15,880
Net profit after tax	7,070	6,527

The Parent has an investment in subsidiaries at cost of \$42.000 million (2012: \$42.000 million). The value of the parent's investment represents a 100% (2012: 100%) shareholding in The Warehouse Limited.

A list of Group companies are detailed in note 41.

28. PROVISIONS

GROUP	CURRENT		NON-CURRENT		TOTAL	
	2013	2012	2013	2012	2013	2012
	\$000	\$000	\$000	\$000	\$000	\$000
Annual performance based compensation	9,024	4,366	-	-	9,024	4,366
Annual leave	25,244	19,025	-	-	25,244	19,025
Long service leave	-	-	7,178	6,890	7,178	6,890
Other employee benefits	3,997	4,899	1,738	1,418	5,735	6,317
Employee benefits	38,265	28,290	8,916	8,308	47,181	36,598
Make good provision	1,064	670	5,088	2,320	6,152	2,990
Sales returns provision	3,229	2,554	-	-	3,229	2,554
Onerous lease	2,891	988	4,259	1,519	7,150	2,507
	45,449	32,502	18,263	12,147	63,712	44,649

(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		ONEROUS LEASE	
	2013	2012	2013	2012	2013	2012
	\$000	\$000	\$000	\$000	\$000	\$000
Opening balance	2,990	2,892	2,554	2,607	2,507	705
Acquisition of subsidiaries	1,435	-	509	-	7,573	-
Arising during the year	2,950	946	3,229	2,554	19	2,163
Net settlements	(1,223)	(848)	(3,063)	(2,607)	(2,949)	(361)
Closing balance	6,152	2,990	3,229	2,554	7,150	2,507

Notes to and forming part of the Financial Statements – continued

FOR THE 52 WEEK PERIOD ENDED 28 JULY 2013

28. PROVISIONS (CONTINUED)

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 based compensation

The annual performance based compensation 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

The Warehouse and Warehouse Stationery 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

The Group's employees are in general entitled to a minimum of eight 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 provides various guarantees and warranties to replace, repair or refund customers for faulty or defective products sold. This provision represents the estimated sales return obligation at balance date based on historical sale return rates.

(e) Onerous lease

A provision for an onerous lease is recognised when the Group retains a lease obligation after vacating a property before the expiry of the lease term. The Group also recognised a provision where the lease obligations associated with the acquisition of Noel Leeming were significantly higher than the market rates at the time of acquisition.

The Parent has no provisions.

29. BORROWINGS

	NOTE	GROUP 2013 \$000	GROUP 2012 \$000	PARENT 2013 \$000	PARENT 2012 \$000
Finance leases	36	1,506	-	-	-
Bank borrowings at call – interest rate: 3.58% (2012: 3.45%)		83,830	78,203	-	-
Current borrowings		85,336	78,203	-	-
Bank borrowings – interest rate: 3.62% (2012: 3.65%)		50,000	50,000	-	-
Finance leases	36	3,681	-	-	-
Fixed rate senior bond (coupon: 7.37%)		100,000	100,000	100,000	100,000
Fair value adjustment relating to senior bond effective interest		1,206	1,673	-	-
Unamortised capitalised costs on senior bond		(586)	(897)	(586)	(897)
Non-current borrowings		154,301	150,776	99,414	99,103
	4	239,637	228,979	99,414	99,103

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 8.80% (2012: 8.79%).

(a) Fair values

The fair value of the fixed rate senior bond at balance date was \$105.108 million (2012: \$105.319 million) based on the last price traded on the New Zealand stock exchange and a market yield of 5.00% (2012: 5.70%).

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

The Group issued a \$100,000 million fixed rate senior bond in April 2010 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 \$0.311 million (2012: \$0.311 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 28 JULY 2013

30. CONTRIBUTED EQUITY

	GROUP 2013	GROUP 2012	PARENT 2013	PARENT 2012
	\$000	\$000	\$000	\$000
Share capital	251,445	251,445	251,445	251,445
Treasury stock	(7,361)	(5,739)	-	-
	244,084	245,706	251,445	251,445

(a) Share capital

GROUP AND PARENT	SHARE CAPITAL		ORDINARY SHARES	
	2013	2012	2013	2012
	\$000	\$000	000	000
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. There were no changes to share capital during the current financial year (2012: No changes).

(b) Treasury stock

GROUP	NOTE	TREASURY STOCK		ORDINARY SHARES	
		2013	2012	2013	2012
		\$000	\$000	000	000
Opening balance		5,739	7,385	1,400	1,719
Ordinary shares issued to settle share plan obligations	31, 15	(1,317)	(2,096)	(355)	(482)
Ordinary shares purchased on market		2,777	261	779	100
Ordinary shares forfeited under the staff share purchase plan	21	162	189	54	63
Closing balance		7,361	5,739	1,878	1,400
Percentage of share capital				0.60%	0.45%

The Group retains its own ordinary shares which are used 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:

The Warehouse Management Trustee Company Limited

K R Smith (Director) and M D Powell (Chief Executive Officer)

The Warehouse Management Trustee Company No.2 Limited

G F Evans (Director) and K R Smith (Director)

31. RESERVES

GROUP	NOTE	2013	2012
		\$000	\$000
Cash flow hedge reserve	22	(564)	(7,215)
Share based payments reserve		3,281	2,209
		2,717	(5,006)

(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 purchase 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	2013	2012
		\$000	\$000
Opening balance		2,209	2,812
Share based payments expense	7	2,545	1,616
Transfer from treasury stock	30	(1,317)	(2,096)
Transferred to retained earnings	33	(156)	(123)
Closing balance		3,281	2,209

The Parent has no reserves.

Notes to and forming part of the Financial Statements – continued

FOR THE 52 WEEK PERIOD ENDED 28 JULY 2013

32. MINORITY INTEREST

GROUP	NOTE	2013 \$000	2012 \$000
Opening balance		233	325
Acquisition of subsidiaries	38	11,293	–
Net profit attributable to minority interest		580	312
Dividends paid to minority shareholders		(370)	(404)
Closing balance		11,736	233

Minority interests relate to minority shareholdings held in Waikato Valley Chocolates (50%), Torpedo7 (49%) and ShopHQ (50%). The minority shareholding in the Torpedo7 group and ShopHQ were acquired in April 2013 and July 2013 respectively (refer note 38).

33. RETAINED EARNINGS

	NOTE	GROUP 2013 \$000	GROUP 2012 \$000	PARENT 2013 \$000	PARENT 2012 \$000
Opening balance		76,434	48,447	10,877	10,882
Net profit attributable to shareholders		144,748	89,848	68,461	62,234
Dividends paid to shareholders	34	(68,463)	(62,239)	(68,463)	(62,239)
Treasury stock dividends received		353	255	–	–
Transferred from share based payments reserve	31	156	123	–	–
Closing balance		153,228	76,434	10,875	10,877

34. DIVIDENDS

GROUP AND PARENT	NOTE	DIVIDENDS PAID		CENTS PER SHARE	
		2013 \$000	2012 \$000	2013	2012
Prior year final dividend		20,228	20,228	6.5	6.5
Interim dividend		48,235	42,011	15.5	13.5
Total dividends paid	33	68,463	62,239	22.0	20.0

All dividends paid were fully imputed. Supplementary dividends of \$0.595 million (2012: \$0.601 million) were paid.

Dividend policy

The Group's dividend policy is to pay a dividend equal to 90% of adjusted net profit (refer note 13). Adjusted net profit makes allowance for discontinued operations and the after tax effect of unusual items, which include profits from the disposal of properties, release of warranty provisions and the direct costs relating to the acquisition of subsidiaries.

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 declared by the Board after balance date and the dividend payout ratio are set out below:

GROUP AND PARENT	NOTE	DIVIDENDS PAID AND DECLARED		CENTS PER SHARE	
		2013 \$000	2012 \$000	2013	2012
Interim dividend		48,235	42,011	15.5	13.5
Final dividend (declared after balance date)		17,116	20,228	5.5	6.5
Total dividends paid and declared		65,351	62,239	21.0	20.0
Adjusted net profit	13	73,697	65,151		
Payout ratio (%) – excluding special dividend		88.7%	95.5%		

On 12 September 2013 the Board declared a final fully imputed ordinary dividend of 5.5 cents per share to be paid on 12 December 2013 to all shareholders on the Group's share register at the close of business on 29 November 2013.

35. IMPUTATION CREDIT ACCOUNT

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

IMPUTATION CREDIT ACCOUNT	GROUP 2013 \$000	GROUP 2012 \$000	PARENT 2013 \$000	PARENT 2012 \$000
Closing balance	80,438	69,886	19,788	20,639

Certain Group subsidiary companies form a consolidated group for income tax purposes. The Group imputation credit account 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.

Notes to and forming part of the Financial Statements – continued

FOR THE 52 WEEK PERIOD ENDED 28 JULY 2013

36. COMMITMENTS

(a) Finance leases

Finance lease liabilities are effectively secured as the rights to the lease asset revert to the lessor in the event of default. Commitments for minimum lease payments in relation to finance leases at balance date are as follows:

GROUP	2013	2012
	\$000	\$000
Future minimum rentals payable		
0-1 Years	1,822	–
1-2 Years	1,470	–
2-5 Years	2,639	–
	5,931	–
Less future finance charges	(744)	–
Present value of finance leases	5,187	–
Current	1,506	–
Non-current	3,681	–
	5,187	–

(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	2013	2012
	\$000	\$000
Future minimum rentals payable		
0 to 1 years	92,297	61,573
1 to 2 years	70,924	50,283
2 to 5 years	123,272	75,404
5+ years	178,513	64,579
	465,006	251,839

The operating lease commitments include new lease commitments of \$58.170 million arising from the acquisition of subsidiaries and \$147.200 million connected with the sale and lease back of previously Group owned properties (refer note 25).

(c) Capital commitments

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

GROUP	2013	2012
	\$000	\$000
Within one year	8,505	18,963

The Parent has no capital or lease commitments.

37. DISCONTINUED OPERATIONS

(a) Bond + Bond

In March 2013, the Group announced a plan to merge the Bond + Bond retail chain acquired as part of the Noel Leeming acquisition into the Noel Leeming network expanding the number of Noel Leeming stores from 67 to 75 nationwide. As part of this plan 13 Bond & Bond stores were closed and two further stores while still trading at balance date are in the process of being closed. Lease exit costs associated with these stores are included within the Noel Leeming acquisition provisions, however other restructuring costs have been expensed as incurred.

All Bond + Bond non-management store staff were offered comparable roles in Noel Leeming stores and every effort was made to offer store managers and other support staff roles within Noel Leeming or the wider Group resulting in minimal redundancy costs.

The results from discontinued operations were as follows:

GROUP	NOTE	2013	2012
		\$000	\$000
Revenue		25,046	–
Cost of sales		(23,837)	–
Gross Profit		1,209	–
Other income		316	–
Employee expense		(2,523)	–
Lease and occupancy expense		(1,919)	–
Depreciation and amortisation expense	17	(208)	–
Other operating expenses		(2,831)	–
Net profit before tax for the period from discontinued operations		(5,956)	–
Income tax expense	12	1,668	–
Net profit after tax for the period from discontinued operations		(4,288)	–
Operating cashflows from discontinued operations		(4,551)	–
Total assets		693	–
Total liabilities		(7,056)	–

Notes to and forming part of the Financial Statements – continued

FOR THE 52 WEEK PERIOD ENDED 28 JULY 2013

38. BUSINESS COMBINATIONS

During the year the Group acquired five subsidiaries. Based on the best information available at the reporting date the Group has recognised the following identifiable acquisition assets and liabilities for the subsidiaries acquired.

GROUP	NOTE	INSIGHT TRADERS \$000	NOEL LEEMING \$000	TORPEDO7 \$000	COMPLETE ENTER-TAINMENT \$000	SHOP HQ \$000	TOTAL \$000
For the 52 week period ended 28 July 2013							
Cash and cash equivalents		–	876	426	–	51	1,353
Trade and other receivables		–	15,433	142	103	67	15,745
Inventories		4,037	101,865	14,702	2,222	559	123,385
Property, plant and equipment	25	222	11,590	2,546	395	149	14,902
Computer software (included in intangibles)	26	28	285	901	155	400	1,769
Brand names (included in intangibles)	26	–	15,500	8,023	–	–	23,523
Tax receivable		–	807	–	–	–	807
Deferred taxation	24	–	7,499	443	–	4	7,946
		4,287	153,855	27,183	2,875	1,230	189,430
Trade and other payables		–	(92,278)	(5,010)	–	(182)	(97,470)
Make good (included in provisions)	28	–	(1,400)	(608)	–	–	(2,008)
Onerous lease (included in provisions)	28	–	(7,574)	–	–	–	(7,574)
Other provisions		–	(5,558)	–	–	–	(5,558)
Tax payable		–	–	(28)	–	–	(28)
Borrowings (including finance leases)		–	(7,933)	–	–	–	(7,933)
Fair value of identifiable net assets		4,287	39,112	21,537	2,875	1,048	68,859
Minority interests	32	–	–	(10,769)	–	(524)	(11,293)
Goodwill arising on acquisition	26	11,750	25,888	22,091	9,700	2,476	71,905
		16,037	65,000	32,859	12,575	3,000	129,471
The acquisition consideration is as follows:							
Cash		8,537	65,000	20,000	11,175	3,000	107,712
Contingent consideration		7,500	–	12,859	1,400	–	21,759
		16,037	65,000	32,859	12,575	3,000	129,471
The cash outflow on acquisitions is as follows:							
Cash and cash equivalents in subsidiary acquired		–	(876)	(426)	–	(51)	(1,353)
Direct costs relating to the acquisition		135	1,217	703	204	71	2,330
Purchase consideration settled in cash		8,537	65,000	20,000	11,175	3,000	107,712
		8,672	65,341	20,277	11,379	3,020	108,689
Direct costs relating to post balance date acquisitions							26
Net consolidated cash outflow							108,715

(a) Insight Traders acquisition

On 28 September 2012 the Group acquired the operations and business assets of Insight Traders, an unlisted private company specialising in the retail and wholesale of perfumes, cosmetics and skincare products.

The acquisition enhances the Group's sourcing and multichannel capability and extends the range of products available online and in The Warehouse stores. Insight Traders was a well established business with strong sourcing capability, the goodwill arising from the acquisition is largely attributable to the specialised knowledge acquired and economies of scale from combining the operations within the Group.

A maximum contingent consideration of \$2.5 million is payable on the first anniversary of the acquisition and then four further tranches of \$1.25 million are payable at six monthly intervals thereafter conditional upon certain specified sales and gross profit targets being achieved.

For the purposes of segment reporting Insight Traders is included within The Warehouse segment (refer note 5).

(b) Noel Leeming acquisition

Effective from 1 December 2012 the Group acquired 100% of the share capital of Noel Leeming Group, a private equity owned company with a chain of 92 retail stores specialising in Consumer Electronics and Home Appliances retailing.

The consideration for the share purchase was \$65.0 million. The goodwill arising from the acquisition is attributable to trading profitability, increased access to retail brands and economies of scale from combining the operations within the Group.

The Group has reassessed the fair value of the assets and liabilities acquired from those initially recognised at the date of the acquisition and previously reported in the January 2013 half year accounts. The level of provisions for onerous leases was increased by \$1.860 million as it has proved more difficult to sublease the vacated properties than originally assumed. This resulted in an increase in goodwill of \$1.340 million above the amounts previously reported.

The Noel Leeming Group operates as a separate trading division and is reported separately for both management and segment reporting (refer note 5).

Notes to and forming part of the Financial Statements – continued

FOR THE 52 WEEK PERIOD ENDED 28 JULY 2013

38. BUSINESS COMBINATIONS (CONTINUED)

(c) Torpedo7 acquisition

The Group acquired 51% of the shares of Torpedo7 Limited in April 2013, a leading New Zealand online retailer operating through the Torpedo7, 1-day and Urbandaddy websites in New Zealand and Australia. The acquisition is consistent with Group's multichannel strategy and provides another platform to increase the Group's online retail presence.

The remaining 49% of the shares of Torpedo7 Limited are held by the pre-acquisition shareholders. The Group has elected to measure the minority interests using the proportionate share of their interest in the identifiable assets and liabilities.

The Group acquired its 51% interest in Torpedo7 Limited for an initial consideration of \$20.0 million, with a further maximum performance based contingent consideration of up to \$13.0 million. The contingent consideration is payable at the end of each of the next three financial years commencing August 2013, based on a sliding scale referenced to the achievement of specified earnings targets for each financial year. The Group has estimated the fair value of the performance based contingent consideration to be \$11.359 million.

The agreement also required a net asset adjustment to be paid where the net assets acquired exceeded a specified limit, subject to the completion and agreement of settlement accounts. The settlement accounts were agreed following balance date indicating that the net assets acquired exceeded the specified limit. The net asset adjustment was settled for \$1.5 million and forms part of contingent consideration.

The Torpedo7 group operates as a separate trading division and is reported separately for both management and segment reporting (refer note 5).

(d) Complete Entertainment Services acquisition

The Group acquired the operations and business assets of Complete Entertainment Services Limited (CES) in February 2013, an unlisted private company specialising in the retail and wholesale of books.

The acquisition enhances the Group's sourcing and multichannel capability and will provide cost savings across the Group. CES has capability in sourcing, inventory management, distribution and online fulfilment in the books category that can be transferred in to other categories. The goodwill arising from the acquisition is largely attributable to the specialised knowledge acquired and economies of scale from combining the operations within the Group.

A maximum contingent consideration of \$0.7 million is payable to the vendor on both the first and second anniversaries of the acquisition subject to CES expanding the current operations in accordance with a specified future expansion plan.

For the purposes of segment reporting CES is included within The Warehouse segment (refer note 5).

(e) Shop HQ acquisition

The Group acquired a controlling 50% interest in the shares of Shop HQ Limited, a start-up online pet store company. The consideration for the share purchase was \$3.000 million. The goodwill arising from the acquisition is largely attributable to the specialised knowledge acquired and economies of scale from combining the operations within the Group.

For the purposes of segment reporting Shop HQ is included within the 'Other Group operations' segment (refer note 5).

39. SUBSEQUENT EVENTS

(a) No.1 Fitness acquisition

On 5 August 2013, Torpedo7 (a 51% owned Group subsidiary) signed an agreement to acquire a 100% interest in the operations and business assets of No.1 Fitness, a leading New Zealand online retailer of fitness equipment.

Under the terms of the agreement the Group will acquire the operations and business assets on 31 August 2013 for an initial consideration of \$8.5 million, with a further maximum contingent consideration of up to \$1.5 million. The contingent consideration is payable within 18 months, based on a sliding scale referenced to the achievement of specified earnings targets.

The acquisition and initial settlement are subject to a number of precompletion deliverables which are yet to be satisfied and include a net asset adjustment. To the extent that the net assets acquired are more or less than an agreed amount this would result in an adjustment to the initial purchase price. Detailed information regarding the identifiable acquisition assets and liabilities were not available at the reporting date pending the completion and finalisation of acquisition accounts.

Notes to and forming part of the Financial Statements – continued

FOR THE 52 WEEK PERIOD ENDED 28 JULY 2013

40. WARRANTY PROVISIONS AND CONTINGENT LIABILITIES

The Warehouse Australia

In November 2005, the Group sold the business assets of The Warehouse Australia to Australian Discount Retail (ADR). At the time of the sale the Group provided for the settlement of potential claims where it was deemed probable that a liability could arise from warranties and indemnities made to the purchaser as part of the sale agreement. The last of the warranties relating to the sale of the business expired in December 2011. The Group was not notified of any unsettled claims and released all the remaining warranty provisions (2012: \$7.355 million) when the warranty period expired.

There are still, however, 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 retained guarantees to certain landlords in respect of rental payments by ADR after November 2005. It remains uncertain whether the Group still retains contingent liabilities in respect of these leases.

GROUP	2013	2012
	\$000	\$000
Bank letters of credit issued to secure future purchasing requirements	14,853	12,622
Less included as a goods in transit creditor	(2,781)	(783)
	12,072	11,839
Bank guarantees provided to landlords and the New Zealand Stock Exchange Limited	1,021	315
Total contingent liabilities	13,093	12,154

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 Parent had no contingent liabilities.

41. 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. Advances provided to related parties are disclosed in note 21.

(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.

- (i) Sir Stephen Tindall (Director) has a beneficial shareholding of 84,058,283 shares (2012: 84,058,283 shares) which carry the normal entitlement to dividends. Dividends of \$18.493 million (2012: \$16.812 million) were received on these shares during the year.
- (ii) The Group's other Directors collectively had beneficial shareholdings of 79,642 shares (2012: 49,642 shares) at balance date which carry the normal entitlement to dividends.
- (iii) Share transactions undertaken by the Directors during the year and Directors non-beneficial shareholdings are required to be disclosed in respect of section 148(2) of the Companies Act 1993. Details of these transactions can be found as part of the statutory disclosures in the annual report.
- (iv) Other key executives (as detailed in note 14) collectively held 287,707 shares (2012: 191,846 shares) at balance date which carry the normal entitlement to dividends. The Group's Chief Executive Officer, M D Powell held 114,779 shares (2012: 67,888 shares) at balance date.
- (v) The Tindall Foundation – Sir Stephen Tindall (Director) and R J Tindall (alternate Director) are Trustees 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 (2012: 66,323,220 shares) in the Group. Dividends of \$14.591 million (2012: \$13.265 million) were received on these shares during the year.

(b) 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 \$317.509 million (2012: \$317.211 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 \$7.661 million (2012: \$7.640 million)
- (iv) Dividends received by the Parent from its subsidiaries \$68.463 million (2012: \$62.239 million).

Notes to and forming part of the Financial Statements – continued

FOR THE 52 WEEK PERIOD ENDED 28 JULY 2013

41. RELATED PARTIES (CONTINUED)

(c) Subsidiaries

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

		PRINCIPAL ACTIVITY	EQUITY HOLDING	
			2013	2012
			%	%
Guaranteeing Subsidiaries				
<u>New Zealand subsidiaries</u>				
1-day Limited	Acquired April 2013	Online retail	51	–
Boye Developments Limited		Investment	100	100
Eldamos Investments Limited		Property owner	100	100
Noel Leeming Group Limited	Acquired December 2012	Retail	100	–
The Warehouse Limited		Retail	100	100
The Warehouse Nominees Limited		Investment	100	100
Torpedo7 Limited	Acquired April 2013	Online retail	51	–
TWP No.3 Limited	Commenced October 2012	Retail	100	–
TWP No.4 Limited	Commenced December 2012	Investment	100	–
TWP No.5 Limited	Commenced April 2013	Investment	100	–
Urbandaddy Limited	Acquired April 2013	Online retail	51	–
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>				
Shop HQ Limited	Acquired July 2013	Online retail	50	–
TWNL Projects Limited		Store development	50	50
TWP No.2 Limited		Wholesale	100	100
<u>New Zealand non-trading subsidiaries and joint ventures</u>				
1-day Liquor Limited	Acquired April 2013		51	–
Bond + Bond Limited	Acquired December 2012		100	–
The Book Depot Limited	Acquired February 2013		100	–
Farran Nine Limited			50	50
Lincoln West Limited			50	50
Noel Leeming Finance Limited	Acquired December 2012		100	–
Noel Leeming Financial Services Limited	Acquired December 2012		100	–
Noel Leeming Furniture Limited	Acquired December 2012		100	–
Noel Leeming Limited	Acquired December 2012		100	–
The Warehouse Investments Limited			100	100
TWP No.1 Limited			100	100

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 Group's 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 ("the Company") on pages 36 to 70, which comprise the balance sheets as at 28 July 2013, the income statements, statements of comprehensive income, 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 28 July 2013 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 and treasury policy advice. These services have not impaired our independence as auditors of the Company and the Group.

Opinion

In our opinion, the financial statements on pages 36 to 70:

- (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 28 July 2013, and their financial performance and cash flows for the 52 week period then ended.

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 28 July 2013:

- (i) we have obtained all the information and explanations that we have required; and
- (ii) in our opinion, proper accounting records have been kept by the Company 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 black ink that reads 'PricewaterhouseCoopers' in a cursive script.

Chartered Accountants, Auckland

12 September 2013

Annual 5 Year Summary

	(52 WEEKS)	(52 WEEKS)	(53 WEEKS)	(52 WEEKS)	(52 WEEKS)
	2013	2012	2011	2010	2009
	\$000	\$000	\$000	\$000	\$000
SUMMARY INCOME STATEMENTS					
The Warehouse	1,591,088	1,524,102	1,462,912	1,476,219	1,531,114
Warehouse Stationery	231,838	206,639	201,453	193,599	187,167
Noel Leeming	390,667	-	-	-	-
Torpedo7	24,193	-	-	-	-
Other Group operations	9,688	8,664	8,320	8,107	8,419
Inter-segment eliminations	(7,942)	(7,237)	(4,908)	(5,230)	(5,945)
Revenue	2,239,532	1,732,168	1,667,777	1,672,695	1,720,755
The Warehouse	85,186	80,874	98,777	112,664	120,238
Warehouse Stationery	10,321	9,844	10,103	8,044	1,596
Noel Leeming	11,011	-	-	-	-
Torpedo7	656	-	-	-	-
Other Group operations	4,064	5,744	5,256	3,341	3,118
Operating profit	111,238	96,462	114,136	124,049	124,952
Equity earnings of associate	3,464	3,197	3,575	2,808	3,220
Gain on disposal of property	77,368	18,230	1,470	-	315
Direct costs relating to acquisitions	(2,356)	-	-	-	-
Release of warranty provisions	-	7,355	-	-	-
Changes in fair value of financial instruments	-	-	194	(282)	(1,698)
Loss on disposal of business operations	-	-	-	-	(10,661)
Earnings before interest and tax	189,714	125,244	119,375	126,575	116,128
Net interest expense	(11,675)	(10,308)	(9,845)	(7,409)	(6,837)
Profit before tax	178,039	114,936	109,530	119,166	109,291
Income tax expense	(28,423)	(24,776)	(31,385)	(58,626)	(32,295)
Profit after tax	149,616	90,160	78,145	60,540	76,996
Discontinued operations (net of tax)	(4,288)	-	-	-	-
Minority interests	(580)	(312)	(316)	(355)	(214)
Profit attributable to shareholders	144,748	89,848	77,829	60,185	76,782
ADJUSTED PROFIT RECONCILIATION					
Unusual items (detailed above)	(75,012)	(25,585)	(1,664)	282	12,044
Income tax relating to unusual items	(327)	888	(138)	22,951	(3,613)
Discontinued operations (net of tax)	4,288	-	-	-	-
Adjusted net profit	73,697	65,151	76,027	83,418	85,213
THE WAREHOUSE					
Operating margin (%)	5.4	5.3	6.8	7.6	7.9
Same store sales growth (%)	2.0	2.6	(0.9)	(2.2)	(0.4)
Number of stores	92	89	88	87	86
Store footprint (square metres)	500,769	482,802	476,115	470,156	467,596
WAREHOUSE STATIONERY					
Operating margin (%)	4.5	4.8	5.0	4.2	0.9
Same store sales growth (%)	2.8	3.0	4.6	7.8	(7.1)
Number of stores	61	56	51	47	46
Store footprint (square metres)	67,230	64,616	58,307	56,101	56,388
NOEL LEEMING					
Operating margin (%)	2.8	-	-	-	-
Number of stores	75	-	-	-	-
Store footprint (square metres)	67,972	-	-	-	-
DIVIDEND DISTRIBUTIONS					
Interim (cents per share)	15.5	13.5	15.5	15.5	15.5
Final (cents per share)	5.5	6.5	6.5	8.5	5.5
Ordinary dividends declared (cents per share)	21.0	20.0	22.0	24.0	21.0
Ordinary dividend payout ratio (%)	88.7	95.5	90.1	89.5	76.7
Basic earnings per share (cents)	46.7	29.0	25.1	19.5	24.9
Basic adjusted earnings per share (cents)	23.8	21.0	24.6	27.0	27.6

Annual 5 Year Summary – continued

	2013	2012	2011	2010	2009
	\$000	\$000	\$000	\$000	\$000
SUMMARY BALANCE SHEETS					
Inventories	458,109	309,421	262,663	254,606	257,943
Trade and other receivables	69,887	28,455	25,791	19,021	24,466
Creditors and provisions	(337,438)	(171,506)	(177,781)	(174,341)	(197,519)
Working capital	190,558	166,370	110,673	99,286	84,890
Fixed assets	318,653	368,606	316,098	293,385	280,680
Investments	5,671	6,372	7,585	5,921	7,376
Funds employed	514,882	541,348	434,356	398,592	372,946
Taxation (liabilities)/assets	17,959	(2,823)	(3,370)	(16,947)	25,401
Goodwill and Brand Names	95,428	-	-	-	-
Derivative financial instruments	370	(8,465)	(33,333)	(5,982)	(29,955)
Capital employed	628,639	530,060	397,653	375,663	368,392
Net debt	216,874	212,693	126,113	72,417	47,248
Equity attributable to shareholders	400,029	317,134	271,215	302,906	320,893
Minority interest	11,736	233	325	340	251
Sources of funds	628,639	530,060	397,653	375,663	368,392
SUMMARY CASH FLOW					
Continuing Operating profit	111,238	96,462	114,136	124,049	124,952
Continuing Depreciation and amortisation	44,017	41,630	39,772	40,937	41,840
Continuing Operating EBITDA	155,255	138,092	153,908	164,986	166,792
Change in trade working capital	(9,244)	(53,757)	(13,474)	(10,864)	50,329
Income tax paid	(40,803)	(31,291)	(36,235)	(22,181)	(19,108)
Net interest paid	(12,270)	(11,714)	(9,937)	(7,023)	(7,743)
Share based payment expense	2,545	1,616	1,640	2,609	2,600
Discontinued EBITDA	(5,748)	-	-	-	-
Loss on sale of plant and equipment	3,966	1,538	1,008	1,624	1,589
Operating cash flow	93,701	44,484	96,910	129,151	194,459
Capital expenditure	(93,315)	(101,392)	(65,896)	(57,280)	(37,103)
Advances	(12,071)	-	-	-	-
Proceeds from divestments	195,572	30,318	5,567	401	1,489
Dividend from associate	4,165	4,410	1,911	4,263	3,035
Net dividends paid	(69,075)	(62,989)	(91,194)	(101,543)	(65,580)
Employee share schemes	(2,310)	236	(449)	82	(3,940)
Acquisition of subsidiaries	(116,648)	-	-	-	-
Other items	(4,200)	(1,647)	(545)	(243)	-
Net cash flow	(4,181)	(86,580)	(53,696)	(25,169)	92,360
Opening debt	(212,693)	(126,113)	(72,417)	(47,248)	(139,608)
Closing debt	(216,874)	(212,693)	(126,113)	(72,417)	(47,248)
FINANCIAL RATIOS					
Operating margin (%)	5.0	5.6	6.8	7.4	7.3
Interest cover (times)	9.8	9.7	12.0	17.1	18.7
Fixed charge cover (times)	2.5	2.8	3.1	3.4	3.4
Net debt/EBITDA (times)	1.1	1.3	0.7	0.4	0.3
Net debt/net debt plus equity (%)	34.5	40.1	31.7	19.3	12.8
Return on funds employed (%)	21.7	20.4	28.3	32.9	31.5
Capex/depreciation (times)	2.1	2.4	1.7	1.4	0.9

Corporate Governance

At The Warehouse Group, we believe that success requires the highest standard of corporate behaviour towards everyone with whom we work, the communities we touch, and the environment on which we have an impact. This is our road to creating sustainable long-term value for our shareholders.

The Board is committed to conducting the company's business ethically and in accordance with high standards of corporate governance. The primary objective of the Board is to build long-term shareholder value with due regard to other stakeholder interests. It does this by guiding strategic direction and focusing on issues critical for its successful execution.

This governance statement outlines the company's main corporate governance practices as at 16 September 2013. During the year, the Board reviewed and assessed the company's governance structure to ensure that it is consistent, both in form and substance, with best practice.

Compliance

The ordinary shares of The Warehouse Group Limited (the Group or company) are listed on the New Zealand stock exchange (NZX). The company seeks to follow the best-practice recommendations for listed companies to the extent that it is appropriate to the size and nature of The Warehouse's operations.

The company considers its governance practices complied with the NZX Corporate Governance (NZXCG) Best Practice Code in its entirety for the year ended 28 July 2013. The structure of this section of the Annual Report reflects the requirements of the New Zealand Securities Commission's Governance Principles and Guidelines.

The company's constitution, the Board and committee charters, codes and policies referred to in this section are available to view at www.thewarehouse.co.nz.

Principle 1 – Ethical Standards

Directors observe and foster high ethical standards.

Code of Ethics and Code of General Business Principles

The Group expects its Directors, officers, employees and contractors (Team Members) to act legally, ethically and with integrity in a manner consistent with the Group's policies, guiding principles and values.

The Group's Code of Ethics and Code of General Business Principles sets out clear expectations of ethical decision-making and personal behaviour by Team Members in relation to situations where their or the Group's integrity could be compromised.

The Codes apply to all companies of The Warehouse Group Limited. Both Codes address, amongst other things:

- confidentiality;
- trading in company securities;
- receipt of gifts and entertainment;
- transparency and avoiding conflicts;
- use of company information and assets;
- delegations of authority;
- processes for reporting and resolving ethical issues;
- workplace responsibilities (diversity, employment practices, health and safety);
- doing business in an environmentally responsible manner;
- interaction with customers and suppliers; and
- fair competition in all the markets in which the company operates.

Team Members are encouraged to anonymously disclose inappropriate, unethical or unsafe activities within the company through a confidential freephone line.

Trading in The Warehouse Group's Securities

The Group is committed to transparency and fairness in dealing with all of its stakeholders and to ensuring adherence to all applicable laws and regulations.

The company has a detailed securities trading policy governing trading in the Group's ordinary shares or any other listed or unlisted securities or derivatives (together, Restricted Securities).

No Team Member may use his or her position of confidential knowledge of the company or its business to engage in securities trading for personal benefit or to provide benefit to any third party.

Specific and stringent rules apply to trading in Restricted Securities by Directors and senior management. All Team Members must notify the Company Secretary (or in the case of Directors, the Chairman of the Board, and in the Chairman's case, the Chairman of the Corporate Governance Committee) of their intention to trade in securities, and seek prior consent confirming that they do not hold material information.

Short-term trading in The Warehouse Group's shares and buying or selling while in possession of unpublished, price-sensitive information are strictly prohibited. The company monitors trading by Directors and senior Team Members of the company and reports any share movements to the Board each month.

Principle 2 – Board Composition and Performance

There is a balance of independence, skills, knowledge, experience and perspective among Directors that allows the Board to work effectively.

Board Size and Composition

The current Board comprises of Directors with a mix of qualifications, skills and experience appropriate to the company's existing operations and strategic directions.

The Board has a majority of independent Directors and the roles of Chairman and Group Chief Executive Officer (CEO) are not exercised by the same person. The Chairman is an independent Director, as is the Deputy Chairman. The Board consists of seven Directors, six of whom are independent non-executive Directors and one non-executive Director who is not deemed to be independent by virtue of his shareholding in the company.

Director Independence

A non-executive director is considered to be 'independent', providing that director:

- is not a substantial shareholder of the company holding more than 5% of the company's class of listed voting securities;
- has not within the last three years been employed in an executive capacity by the company or been a director after leaving to hold any such employment;
- is not a principal or employee of a professional advisor to the company and its entities whose billings exceed 10% of the advisor's total revenues;
- is not a significant supplier or customer of the company – a significant supplier is defined as one whose revenues from the company exceed 10% of the supplier's total revenue;
- has no material contractual relationship with the company;
- has no other interest or relationship that could interfere with the director's ability to act in the best interests of the company and independently of management;
- is not a member of management of The Warehouse Group Limited or its subsidiaries; and
- the corporate governance committee and Board determines the director is independent in character and judgement.

On appointment, each Director is required to provide information to the Board to assess and confirm their independence as part of their consent to act as a Director. Directors have undertaken to inform the Board as soon as practicable if they think their status as an independent Director has or may have changed.

The Board does not believe that any Director has served on the Board for a period which could, or could reasonably be perceived to, materially interfere with the Director's ability to act in the best interests of the company. The Board considers that Directors retain independence of character and judgement regardless of length of service. Qualifications and experience of individual Directors are detailed on pages 04 and 05.

Corporate Governance – continued

Board Role and Responsibility

The Board Charter regulates Board procedures and describes its role and responsibilities. The Board of the company is elected by the shareholders to supervise the management of the company and is accountable to shareholders for the company's performance. The Board's responsibilities include:

- strategy – providing strategic direction and approving corporate strategic initiatives;
- leadership selection – evaluating the performance of and selecting the CEO and Group Chief Financial Officer (CFO);
- Board performance and composition – evaluating the performance of non-executive Directors, determining the size and composition of the Board as well as making recommendations for the appointment and removal of Directors;
- remuneration – setting CEO and senior executive remuneration and setting non-executive Director remuneration within shareholder-approved limits;
- succession planning – planning Board and executive succession;
- financial performance – approving the annual budget, monitoring management and financial performance as well as the achievement of company strategic goals and objectives;
- financial reporting – considering and approving the half-year and annual financial reports;
- audit – selecting and recommending to shareholders the appointment of the external auditors. Maintaining a direct and on-going dialogue with the external auditors;
- risk management – approving the company's risk management strategy and monitoring its effectiveness;
- health and safety – approving the company's health and safety strategy and monitoring its effectiveness;
- social responsibility – setting business standards and promoting ethical and responsible decision-making by the company; and
- relationship with regulators, exchanges and continuous disclosure – maintaining direct and ongoing dialogue with the NZX and ensuring that the market and shareholders are continually informed of material developments.

Delegation

The Board is responsible for guiding the corporate strategy and direction of the Group and has overall responsibility for decision-making. The Board delegates to the CEO responsibility for implementing the agreed strategy and for managing operations.

While the day-to-day responsibility for the operation of the business is delegated to the executive management, there are a number of matters which are required to be, or that in the interests of the company should be, decided only by the Board of Directors as a whole. The Board has therefore formally adopted a list of 'Matters Reserved for the Board' for which no delegation is permitted. The delegation to the CEO is reviewed annually.

Avoiding Conflicts of Interest

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

Board Access to Information and Advice

The Board has established a procedure whereby Directors and Board committees have the right, in connection with their duties and responsibilities, to seek independent professional advice at the company's expense.

Independent professional advice includes legal advice and the advice of accountants and other professional advisors on matters of law, accounting and other regulatory matters but excludes advice concerning the personal interests of the Director concerned (such as service contracts with the company or dealings in the company's securities or disputes with the company). Any advice obtained under this procedure will be made available to the other members of the Board.

The Board has complete access to company Team Members via the CEO. The Board encourages management to schedule presentations at Board meetings by managers who can provide additional insight into the items being discussed, because of their personal involvement, or have future potential that management believes should be demonstrated to the Board.

Nomination and Appointment of Directors

Procedures for the appointment and removal of Directors are governed by the company's constitution. The People and Remuneration Committee is delegated with the responsibility of identifying and nominating, for the approval of the Board, candidates to fill Board vacancies as and when they arise.

The Board's procedure when selecting and appointing Directors varies depending upon the circumstances of the company at the particular time. The Board believes that its membership should comprise Directors with an appropriate mix of skills, experience and personal attributes that allow the Directors individually, and the Board collectively, to:

- discharge their responsibilities and duties under the law effectively and efficiently;
- understand the business of the company and the environment in which the company operates so as to be able to agree with management on the objectives, goals and strategic direction which will maximise shareholder value; and
- assess the performance of management in meeting those objectives and goals.

While recognising that each Director will not necessarily fulfil all criteria, the People and Remuneration Committee has identified the existence of certain personal characteristics as relevant to the selection and appointment of Directors.

The committee believes that a potential Director should:

- be outstanding in capability and have extensive and senior commercial experience;
- be a cultural 'fit' with existing Board members and have empathy with the company's culture;
- have a high level of personal integrity;
- be a team player;
- have an independent state of mind;
- be free of conflicts as identified by the company; and
- have the time available to meeting the commitment required.

In addition, specific functional skills will be identified from time to time to complement the overall mix of functional skills of Board members and to continue the implementation of the Board succession plan.

Letter of Appointment

The terms and conditions of appointment are set out in a letter of appointment which details the Director's duties, term of appointment (subject to shareholder approval), expectations of the role and remuneration.

Directors' Induction and Education

When appointed to the Board, all new Directors undergo an induction programme appropriate to their experience to familiarise them with The Warehouse's business and strategy. A detailed induction programme, including a familiarisation programme for non-executive Directors, has been developed and approved by the Board.

As part of each strategic planning review, Directors are formally briefed by senior management on relevant industry and competitive issues.

Retirement and Re-election of Directors

In each year, one third of the Directors, or if their number is not a multiple of three then the nearest number to one third, shall retire from office and may offer themselves for re-election at the Annual Meeting of shareholders. Directors to retire are those who have been longest in office since they were last elected or deemed elected.

While the constitution provides for the payment of retirement benefits to Directors, the company has not paid retirement benefit to any Directors since listing in 1994.

Board Performance Review

The Chairman, with the assistance of appropriate internal and external advisors, assesses the performance of individual Directors whilst Directors also assess the collective performance of the Board and the performance of the Chairman. A formal evaluation was conducted during the year with assistance from an outside facilitator.

Corporate Governance – continued

Principle 3 – Board Committees

The Board uses committees where this enhances effectiveness in key areas while retaining Board responsibility.

Committees established by the Board review and analyse policies and strategies, usually developed by management, and operate under specific charters. The Committees assist the Board in the conduct of its responsibilities and report to the full Board on all material matters and issues requiring Board decisions.

The current committees of the Board are:

- Audit Committee;
- People and Remuneration Committee;
- Corporate Governance Committee; and
- Disclosure Committee.

From time to time, the Board may create ad hoc committees to examine specific issues on its behalf. Each year, the Committee charters are reviewed and where appropriate updated to take account of changes and other developments in each committee's area of responsibility.

Audit Committee

Membership is restricted to non-executive Directors and the majority must be independent. The Chairman of the committee must also be independent and must not be the Chairman of the Board. The committee includes members who have appropriate financial experience and an understanding of the industry in which The Warehouse operates.

The members of the Audit Committee are:

James Ogden (*Chairman*)

Graham Evans

Ted van Arkel

Keith Smith

James Ogden and Keith Smith are Fellows of the New Zealand Institute of Chartered Accountants.

This committee meets a minimum of four times each year. Its main responsibilities are to:

- exercise oversight of the integrity and completeness of the financial statements (Annual Report and the half-year financial report);
- assist the Board to review the effectiveness of the organisation's internal control environment covering:
 - effectiveness and efficiency of operations;
 - reliability of financial reporting; and
 - compliance with applicable laws and regulations;
- determine the scope of the internal audit function, its authority, resources and scope of work including co-ordination with external auditors;
- oversee the effective operation of the risk management framework;
- review the company's tax position, compliance and any exposures;
- recommend to the Board the appointment, removal and remuneration of the external auditors, and review the terms of their engagement and the scope and quality of the audit; and
- review and approve, within established procedures and before commencement, the nature and scope of non-audit services being provided by the external auditors.

In fulfilling its responsibilities the Audit Committee receives regular reports from management and the internal and external auditors.

During the year, the committee also held private sessions with the internal and external auditors. The internal and external auditors have a clear line of direct communication at any time with either the Chairman of the Audit Committee or the Chairman of the Board, both of whom are independent non-executive Directors.

The Audit Committee relies on information provided by management and the external auditor. Management determines and makes representations to the Board that The Warehouse financial statements and disclosures are complete and accurate.

The external auditor has the duty to plan and conduct audits.

People and Remuneration Committee

People and Remuneration Committee membership is restricted to non-executive Directors and the majority on the committee must be independent. The Chair of the committee is an independent Director.

The members of the People and Remuneration Committee are:

Janine Smith (*Chair*)

Graham Evans

Keith Smith

Sir Stephen Tindall

Ted van Arkel

The committee is responsible for determining and reviewing compensation arrangements for the Directors, CEO and the executive management team, ensuring appropriate performance management, talent identification and succession planning frameworks are in place. The committee is also responsible for reviewing the structure, size and composition of the Board, and identifying and nominating candidates for the approval of the Board. Its role also includes oversight of the Group's Health and Safety strategy and Diversity Policy.

Corporate Governance Committee

Membership of the committee is restricted to independent Directors.

The members of the Corporate Governance Committee are:

Janine Smith (*Chair*)

Graham Evans

The committee was established to ensure that the company maintains a high level of corporate governance through continuous monitoring of international corporate governance best practice as promulgated by the relevant authoritative bodies.

The committee is responsible for developing recommendations to the Board on corporate governance matters, undertaking an annual review of the alignment of the Board's governance systems with best practice, determining and monitoring independence of Directors, reviewing ethical guidelines and reviewing the company's disclosure policy.

Disclosure Committee

The Disclosure Committee is a committee of the Board of Directors and management and comprises the following members:

Keith Smith (*Chairman*)

Graham Evans

James Ogden

Sir Stephen Tindall

CEO, CFO and Company Secretary

The committee is responsible for ensuring the company meets its disclosure obligations under the NZX listing rules. To achieve and maintain high standards of disclosure, the Board has approved a Market Disclosure Policy which is designed to ensure compliance with continuous disclosure requirements.

Corporate Governance – continued

Board and Committee Meetings

The Board normally meets at least nine times a year and whenever necessary to deal with specific matters. The Board committees meet either quarterly or are convened as necessary. Each committee is entitled to the resources and information it requires to operate effectively.

All Directors can attend any committee meeting at the invitation of the relevant committee, with the CEO and the CFO attending the Audit Committee by standing invitation. Senior management is also available to address queries, and to assist in the understanding of issues facing the company.

The Board formally met 11 times during the year. In addition, Directors met throughout the year on matters of strategy, planning, committee business, and to attend to other business between meetings. The table below shows director attendance at the formal Board meetings and committee member attendance at committee meetings during the year ended 28 July 2013.

	BOARD	AUDIT	REMUNERATION, TALENT AND NOMINATION COMMITTEE	CORPORATE GOVERNANCE	DISCLOSURE COMMITTEE
Number of Meetings	11	4	3	1	0
Tony Balfour ¹	8				
Graham Evans	11	4	3	1	
James Ogden	11	4	3 ²		
Janine Smith	11		3	1	
Keith Smith	11	4	3		
Sir Stephen Tindall	11		3		
Ted van Arkel	10	4	3		

¹ Appointed as a Director 15 October 2012

² Non-committee member in attendance

Principle 4 – Reporting and Disclosure

The Board demands integrity both in financial reporting and in the timeliness and balance of disclosures on entity affairs.

Financial Reporting

The Audit Committee oversees the quality and integrity of external financial reporting including the accuracy, completeness and timeliness of financial statements.

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

Management accountability for the integrity of the company's financial reporting is reinforced by certification from the CEO and CFO. The CEO and CFO provided the Board with written confirmation that the company's financial report presents a true and fair view, in all material respects, of the company's financial position for the year ended 28 July 2013, and that operational results are in accordance with relevant accounting standards.

Timely and Balanced Disclosure

The Warehouse considers that shareholders and the investment market generally should be promptly informed of all major business events that influence the company. To achieve and maintain high standards of disclosure, the Board has approved a Market Disclosure Policy which is designed to ensure compliance with NZX continuous disclosure requirements.

To assist the company with its Market Disclosure Policy, the Board has appointed a Disclosure Committee. The committee is responsible for making decisions on what should be disclosed publicly under the Market Disclosure Policy.

The Company Secretary is the Disclosure Officer of the company and has responsibility for ensuring compliance with the continuous disclosure requirements, and overseeing and co-ordinating disclosure to the market.

Principle 5 – Remuneration

The remuneration of Directors and executives is transparent, fair and reasonable.

Making sure Team Members get the rewards they deserve is the responsibility of the People and Remuneration Committee, a committee of the Board. The committee makes recommendations to the Board on salaries and incentive programmes and more generally on Group issues, plans and policies relating to people management. The committee is assisted by the General Manager People Support, and by external remuneration advisors.

Non-Executive Directors' Remuneration

The fees payable to non-executive Directors are determined by the Board within the aggregate amount approved by shareholders.

The Board considers the advice of independent remuneration consultants when setting remuneration levels. The current Directors' fee pool limit is \$750,000 which was approved by the shareholders at the 25 November 2011 Annual Meeting of shareholders.

Details of the remuneration paid to Directors and other benefits provided by way of salaries, bonus and exercising share rights are disclosed in note 14 to the Financial Statements.

Senior Executive Remuneration

The objective of the senior managerial remuneration strategy is to provide competitive remuneration aimed at:

- aligning managers' rewards with shareholders' value;
- achieving business plans and corporate strategies;
- rewarding performance improvement; and
- retaining key skills and competencies.

The composition of senior executive remuneration is made up as follows:

- **Base or fixed remuneration** – determined by the scope of the role and the level of knowledge, skill and experience required by the individual. The main reference point is the salary at the median of this group although the company is prepared to pay more to secure and retain the right people to deliver what the business needs.
- **Short-term incentive plan** – this comprises an annual incentive, based on percentage of the fixed remuneration, dependent on the achievement of key performance and operating result objectives. For the Executive Team the bonus is generally up to 50% of base salary for 'On Target' performance and is based on a combination of the Group reported earnings and each executive's specific objectives.
- **Long-term incentive plan** – a reward for the achievement of long-term shareholder return. Under the share rights plan that has been approved by shareholders, participants may be entitled to ordinary shares in the company if certain targets are met. Details of the plan, and the targets, are contained in note 15 to the Financial Statements.

Senior executives' objectives are set annually, with formal reviews in March and August each year. The CEO's objectives are set with the Chairman and tabled to the Board annually.

Senior management remuneration is detailed in the wider disclosure made by the company in the Team Members' remuneration section of the statutory disclosures. Collective disclosure of remuneration paid to key executives is disclosed in note 14 to the Financial Statements.

Corporate Governance – continued

Principle 6 – Risk Management

The Board regularly verifies that the entity has appropriate processes that identify and manage potential and relevant risks.

Approach to Managing Risk

Risk is the chance of something happening that will have an impact on business objectives. Having established an acceptable risk tolerance, the Group's approach is to identify, analyse, evaluate and appropriately treat risk in the business.

The company recognises three main types of risk:

- **Operational risk** – risk to earnings and reputation arising from inadequate or failed internal processes, people and systems or from external events;
- **Business risk** – risk to earnings and reputation from business event risk, legal, compliance or regulatory risk; and
- **Market risk** – risk to earnings and reputation arising from competitor activity, product risk and risk associated with changes in financial markets (such as interest rate, foreign exchange and liquidity risk).

Risk Management Roles and Responsibilities

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

CEO and CFO Assurance

The CEO and CFO have provided the Board with written confirmation that the company's 2013 financial statements are founded on a sound system of risk management and internal compliance and control, and that such systems are operating efficiently and effectively in all material respects.

Risk Monitoring and Evaluation

While the Board of Directors is ultimately responsible for the risk management of the company, the Audit Committee reviews the reports of management and the external and internal auditors on the effectiveness of systems for internal control, financial reporting and risk management. To assist in discharging this responsibility, the Board has in place a number of strategies designed to safeguard the company's assets and interests and ensure the integrity of reporting. These reports included quarterly reviews of store audit results and quarterly reports from EY on internal audit findings.

Insurance

The company maintains insurance coverage with reputable insurers for relevant insurable risks on terms which are appropriate having regard to the company's recent claims history and the current insurance market. In order to reduce insurance premiums the company increased its insurance deductible for non-earthquake material damage. The company continues to maintain insurance cover for earthquake related losses.

The Warehouse Limited and Warehouse Stationery Limited are accredited employers under the ACC Partnership Programme for workers' compensation insurance. The company's partnership programme continues to have tertiary accreditation status, the highest level available. This status clearly recognises our commitment to workplace safety.

This programme encourages eligible employers to take responsibility for their own workplace health and safety, and injury management. This includes rehabilitation and claims management of employees' work injuries.

As a partnership employer the company self-insures the costs and compensation arising from workplace injuries.

Noel Leeming Group Limited is in the ACC Workplace Safety Management Practices Programme and currently has tertiary level status.

Principle 7 – Auditors

The Board ensures the quality and independence of the external audit process.

Approach to Audit Governance

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

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

- the external auditor must remain independent of the company at all times and comply with the New Zealand Institute of Chartered Accountants' (NZICA) Code of Ethics;
- the external auditor must monitor its independence and report to the Board that it has remained independent;
- guidelines in relation to the provision of non-audit services by the external auditor are in place, in order that the provision of such services does not impair the external auditor's independence or objectivity;
- the audit firm may be permitted to provide non-audit services that are not considered to be in conflict with the preservation of the independence of the auditor subject to the approval of the company's Audit Committee; and
- the Audit Committee must approve significant permissible non-audit work assignments that are awarded to an external auditor, and the value of non-audit work must be reported at every Board meeting.

Engagement of the External Auditor

The Warehouse's external auditor is PricewaterhouseCoopers (PwC). PwC was appointed by shareholders at the 2004 Annual Meeting in accordance with the provisions of the Companies Act 1993 (Act). PwC is automatically reappointed as auditor under Section 200 of the Act.

Attendance at the Annual Meeting

PwC, as auditor of the 2013 Financial Statements, has been invited to attend this year's Annual Meeting and will be available to answer questions about the conduct of the audit, preparation and content of the auditors' report, accounting policies adopted by The Warehouse Group Limited and the independence of the auditor in relation to the conduct of the audit.

Internal Audit

The company has an internal audit function, which is independent of the company's external auditors. The internal audit function of the company is undertaken in conjunction with EY. The respective internal audit teams report to and are directed by the Audit Committee.

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

The role of internal audit is to:

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

Store audits are conducted by the company's internal auditors. For the year ended 28 July 2013, 259 store audits were conducted by the company's internal auditor (2012: 306 audits). The store audit programme changed to allocate more time to lower performing stores which led to a reduction in the overall number of audits.

Corporate Governance – continued

Principle 8 – Shareholder Relations

The Board fosters constructive relationships with shareholders that encourage them to engage with the company.

The company values its dialogue with institutional and private investors and is committed to giving all shareholders comprehensive, timely and equal access to information about its activities.

The Board aims to ensure that shareholders are informed of all information necessary to assess the Board’s performance. They do so through a communication strategy which includes:

- periodic and continuous disclosure to NZX;
- information provided to analysts and media;
- half-yearly and Annual Reports;
- the annual shareholders’ meeting and any other meetings called to obtain approval for Board actions as appropriate; and
- the company’s website.

In accordance with the New Zealand Companies Act and NZSX Listing Rules, the company is no longer required to automatically mail a hard copy of its half-yearly or annual reports to shareholders.

The Board has moved to electronic reporting. Even though interim and Annual Reports are available electronically, shareholders can request a hard copy of the report to be mailed to them free of charge.

The notice of meeting is circulated at least 10 days before the meeting and is also posted on the company’s website.

Shareholders are provided with notes on all the resolutions proposed through the notice of meeting each year. Directors and the company’s external auditor are available to answer shareholder questions. The Board encourages full participation of shareholders to ensure a high level of accountability and identification with the company’s strategies and goals.

In addition, web-casting and teleconferencing facilities are provided for market briefings to encourage participation from all stakeholders, regardless of their location.

Principle 9 – Stakeholder Interests

The Board respects the interests of stakeholders within the context of the company’s ownership type and its fundamental purpose.

The Group aims to manage its business in a way that will produce positive outcomes for all stakeholders including the public, customers, Team Members, suppliers and shareholders.

We monitor progress in business sustainability as we seek to actively improve the social and environmental characteristics of the business. This is a goal to which The Warehouse is strategically committed and which it incorporates in its day-to-day operations.

The Warehouse Group Limited is listed on the FTSE4Good Index which identifies companies that meet globally recognised corporate responsibility standards.

Diversity

The Group is committed to providing a work environment where we recognise and value different skills, ability and experiences and where people are treated fairly in order to attract and retain talented people who will contribute to the achievement of the company’s corporate objectives.

We encourage a working environment in which individual diversity is recognised and where equal employment opportunities are offered to all potential and existing Team Members on the basis of relevant merit. As part of our ongoing commitment to our Diversity Policy, in February 2012 we became one of the first companies in New Zealand to commit to the United Nations Women’s Empowerment Principles, which help empower women in the workplace, the market and the community. This year the company entered into a two year commitment to support Diverse NZ Inc develop a programme to address diversity issues in New Zealand.

The company has undergone significant change during the year due to company acquisitions and other initiatives. The diversity practices of entities new to the Group are being reviewed with a view to establishing consistent diversity practices across the company. The results of this review are being reported to the Board in December as part of regular reporting on diversity.

The gender composition of Directors, Officers and All Team members is provided below:

	MALE	FEMALE
Directors	6	1
Officers	14	3
All Team Members	40%	60%

The Warehouse’s commitment to Communities and the Environment is further demonstrated on pages 22 to 33.

Statutory Disclosures

Disclosures of Interests by Directors

General Disclosures

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

Antony (Tony) Balfour

Director, Joy Ice Cream Limited
Director, Silver Fern Farms Limited
Director, WilliamsWarn Holdings Limited
and associated companies

Graham Evans

Chairman, Multichem Group Limited and associated companies

James Ogden

Director, MTA Group Investments Limited
and associated companies
Director, Ogden Consulting Limited
Director, Petone Investments Limited
Director, Seaworks Limited and associated companies
Director, Summerset Group Holdings Limited
and associated companies
Director, Vehicle Testing Group Limited
Independent Member, AMP Capital Property Portfolio Fund
(Governance Committee)
Chair, Audit Committee of the Ministry of Social Development
(retired 30 June 2013)
Chair, Value for Money Advisory Board of the Ministry of
Social Development
Member, Audit & Risk Committee of the Ministry of
Foreign Affairs and Trade (retired 30 June 2013)
Member, Finance and Risk Committee of Crown
Forestry Rental Trust
Member, Investment Committee of Pencarrow Private
Equity Fund
Member, Nominating Committee for the Guardians of New
Zealand Superannuation (retired 30 September 2012)
Member of the New Zealand Markets Disciplinary Tribunal

Janine Smith

Chair, AsureQuality Limited
Director, Steel & Tube Holdings Limited
Principal, The Boardroom Practice Limited
Independent Director, Kensington Swan Legal
Independent Member, Fonterra Governance
Development Committee
Member, University of Auckland New Zealand
Governance Centre Advisory Board
Member, Massey University College of Business Advisory Board
Director of other privately owned companies

Keith Smith

Chairman, Goodman (NZ) Limited
Chairman, Healthcare Holdings Limited and subsidiaries
Chairman, Mobile Surgical Services Limited
Director, Electronic Navigation Limited
Director, Enterprise Motor Group Limited and subsidiaries
Director, Gwendoline Holdings Limited (non-trading)
Director, James Raymond Holdings Limited (non-trading)
Director, Mighty River Power Limited
Director, Sheppard Industries and subsidiary
Director, Tourism Holdings Limited
Member, Advisory Board NZ Tax Trading Company Limited
Trustee, Cornwall Park Trust Board

Sir Stephen Tindall

Founding Director, KEA New Zealand
Director, Branches Station Limited
Director, Byron Corporation Limited
Director, Foundation Services Limited
Director, Highland Resorts Limited
Director, K One W One Limited
Director, K One W One (No 2) Limited
Director, Norwood Investments Limited
Trustee, The Tindall Foundation

Eduard (Ted) van Arkel

Chairman, Health Benefits Limited
Chairman, Restaurant Brands NZ Limited
Chairman, UNITEC NZ Limited
Director, Abano Healthcare Group Limited
Director, Auckland Regional Chamber of Commerce
& Industry Limited
Director, AWF Group Limited
Director, Danske Mobler Limited
Director, Lang Properties Limited
Director, Nestle NZ Limited
Director, Philip Yates Securities Limited and subsidiary
Director, Van Arkel & Co Limited

Robert Tindall (Alternate Director)**

Trustee, The Tindall Foundation
Director, Foundation Services Limited

** Alternate to Sir Stephen Tindall

Indemnity and Insurance

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

Statutory Disclosures – continued

Directors' Security Participation

Directors' Shareholdings as at 28 July 2013

At 28 July 2013 the following Directors, or entities related to them, held interests in the company shares:

	BENEFICIAL INTEREST 2013	BENEFICIAL INTEREST 2012	NON-BENEFICIAL INTEREST 2013	NON-BENEFICIAL INTEREST 2012	RELATED PARTY 2013	RELATED PARTY 2012
G F Evans	31,200	11,200	933,035	508,767	-	-
J H Ogden	11,400	11,400	-	-	39,083	39,083
J L Smith	10,000	10,000	-	-	-	-
K R Smith	12,000	12,000	7,957,030	7,540,034	32,800	32,800
R J Tindall ¹	4,800	4,800	6,489,844	6,489,844	85,738,511	84,738,511
Sir Stephen Tindall	85,058,283	84,058,283	7,165,272	7,165,272	9,600	9,600
E K van Arkel	10,240	240	-	-	750	750

¹ Alternate Director

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

- Graham Evans and Keith Smith held non-beneficially the same parcels of shares 933,035 (July 2012: 508,767 shares) as trustees of The Warehouse Management Trustee Company No.2 Limited.
- Sir Stephen Tindall and Robert Tindall both hold an interest in 85,058,283 shares and other smaller parcels by virtue of their family relationship.

Share Dealings by Directors

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

SHARE TRANSACTION	DATE OF TRANSACTION	NUMBER OF ORDINARY SHARES ACQUIRED/(DISPOSED)	CONSIDERATION
K R Smith as a Trustee of The Warehouse Management Trustee Company Limited	various dates	(6,512)	to Team Members under the staff share schemes
G F Evans and K R Smith as Trustees of The Warehouse Management Trustee Company No.2 Limited	various dates	(340,334)	settlement of obligations under the executive share scheme
G F Evans and K R Smith as Trustees of The Warehouse Management Trustee Company No.2 Limited	September 2012	179,000	on-market purchase of shares for the executive share scheme at an average price of \$2.87 per share
G F Evans and K R Smith as Trustees of The Warehouse Management Trustee Company No.2 Limited	March 2013	600,000	on-market purchase of shares for the executive share scheme at an average price of \$2.60 per share
Sir Stephen Tindall	February 2012	1,000,000	off-market transfer of shares in accordance with shareholder approval granted 23 November 2012
G F Evans	September 2012	20,000	on-market purchase of shares at \$2.90 per share
E K van Arkel	March 2013	10,000	on-market purchase of shares at \$3.74 per share

Statutory Disclosures – continued

Remuneration of Directors

On 25 November 2011 the shareholders approved the director fee pool limit of \$750,000 per annum.

The fees paid to non-executive directors for services in their capacity as directors during the year ended 28 July 2013 was as follows:

	2013	2012
	\$	\$
A J Balfour – appointed 15 October 2012	75,000	–
R L Challinor – retired 25 November 2011	–	24,000
G F Evans (Chairman)	160,000	155,000
J H Ogden	86,000	84,000
J L Smith	83,000	81,000
K R Smith (Deputy Chairman)	115,000	115,000
Sir Stephen Tindall	79,000	77,000
E K van Arkel	84,000	81,000
Total	682,000	617,000

Subsidiary Company Directors

The following people held office as directors of subsidiary companies at 28 July 2013. Those who retired during the year are indicated with an (R).

Company	Directors
1-day Limited	Guy Howard-Willis, Luke Howard-Willis
1-day Liquor Limited	Guy Howard-Willis, Luke Howard-Willis
Bond and Bond Limited	B Moors, M Powell, S Small
Boye Developments Limited	M Powell, S Small
Eldamos Investments Limited	P Judd, P Okhovat, M Powell
Eldamos Nominees Limited	P Judd, M Powell
Noel Leeming Finance Limited	B Moors, M Powell, S Small
Noel Leeming Financial Services Limited	B Moors, M Powell, S Small
Noel Leeming Furniture Limited	B Moors, M Powell, S Small
Noel Leeming Group Limited	B Moors, M Powell, S Small
Shop HQ Limited	S Bradley, A Buxton, S Small, A Trippe-Smith
The Book Depot Limited	S Wright (R), S Small
The Warehouse Card Limited	M Powell, S Small
The Warehouse Cellars Limited	P Judd, S Small
The Warehouse Investments Limited	M Powell, S Small
The Warehouse Limited	P Judd, S Small, K Smith, M Powell,
The Warehouse Nominees Limited	M Powell, S Small
TWGA Pty Ltd	I McGill, B Moors, K Smith, Sir Stephen Tindall
TWL Australia Pty Limited	I McGill, B Moors, K Smith, Sir Stephen Tindall
TWL Products Limited	M Powell
TWP No.1 Limited	P Judd, N Tuck
TWP No.2 Limited	P Judd, S Small, N Tuck
TWP No.3 Limited	P Judd, S Small, N Tuck
TWP No.4 Limited	B Moors, M Powell, S Small
TWP No.5 Limited	B Moors, M Powell, S Small
Urbandaddy Limited	Guy Howard-Willis, Luke Howard-Willis
Waikato Valley Chocolates Limited	N Tuck (R), T Benyon, N Craig, P Judd, M Razey, H Vetsch
Warehouse Stationery Limited	M Powell, P Judd, S Small

Statutory Disclosures – continued

Team Members' Remuneration

Grouped below, in accordance with section 211(1)(g) of the Companies Act 1993, are the number of team members or former team members, not being directors or former directors, who received remuneration and other benefits valued at or exceeding \$100,000 during the year under review.

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

Team members also received share based remuneration during the year as part of the Group's long term incentive plans (refer note 15 to the Financial Statements). The amount attributed to share based remuneration presented in the table below represents the value to the employee of the compensation determined using the share price on the date when share options were exercised by the team member and/or the share price on the date when share rights vested.

REMUNERATION (\$000)	NUMBER OF TEAM MEMBERS		REMUNERATION (\$000)	NUMBER OF TEAM MEMBERS	
	EXCLUDING SHARE BASED REMUNERATION	INCLUDING SHARE BASED REMUNERATION		EXCLUDING SHARE BASED REMUNERATION	INCLUDING SHARE BASED REMUNERATION
100 – 110	49	49	300 – 310	–	1
110 – 120	36	35	310 – 320	2	3
120 – 130	38	38	320 – 330	1	–
130 – 140	26	27	330 – 340	1	3
140 – 150	24	24	350 – 360	2	–
150 – 160	9	8	360 – 370	1	–
160 – 170	13	13	370 – 380	1	–
170 – 180	9	9	390 – 400	1	3
180 – 190	4	4	400 – 410	1	–
190 – 200	4	4	410 – 420	1	–
200 – 210	5	4	430 – 440	–	1
210 – 220	6	5	440 – 450	1	3
220 – 230	3	3	450 – 460	–	1
230 – 240	2	2	480 – 490	1	–
240 – 250	2	2	490 – 500	1	–
250 – 260	2	2	510 – 520	–	1
260 – 270	6	1	530 – 540	–	1
270 – 280	3	3	590 – 600	1	1
280 – 290	2	5	1,200 – 1,210	1	–
290 – 300	1	3	1,350 – 1,360	–	1

Substantial Security Holders

According to notices given to the company under the Securities Markets Act 1988, as at 16 September 2013, the substantial security holders in the company and their relevant interests are noted below:

	RELEVANT INTEREST	DATE OF NOTICE
General Distributors Limited (an indirect, wholly-owned subsidiary of Woolworths Limited)	30,548,887	29 May 2007
Wardell Bros & Coy Limited, Cash Wholesalers Limited and Foodstuffs (Auckland) Nominees Limited	31,120,089	23 March 2007
Sir Stephen Tindall	84,141,524	19 March 2004
The Tindall Foundation	66,323,220	19 March 2004

Statutory Disclosures – continued

Twenty Largest Registered Shareholders as at 16 September 2013

	NUMBER OF ORDINARY SHARES	PERCENTAGE OF ORDINARY SHARES
Sir Stephen Tindall	84,058,283	27.01%
The Tindall Foundation	66,323,220	21.31%
General Distributors Limited	30,548,887	9.82%
Cash Wholesalers Limited	10,373,363	3.33%
Foodstuffs (Auckland) Nominees Limited	10,373,363	3.33%
Wardell Bros & Coy Limited	10,373,363	3.33%
J B Were (NZ) Nominees Limited	5,640,282	1.81%
J B Were (NZ) Nominees Limited	5,210,241	1.67%
J B Were (NZ) Nominees Limited	4,653,150	1.50%
JPMorgan Chase Bank NA NZCSD A/c ¹	3,565,408	1.15%
Sir Stephen Tindall & K R Smith & J R Avery (as trustees)	3,389,844	1.09%
HSBC Nominees (New Zealand) Limited – NZCSD A/c ¹	3,337,422	1.07%
R G Tindall & G M Tindall & Sir Stephen Tindall (as trustees)	3,100,000	1.00%
Citibank Nominees (New Zealand) Limited	2,702,389	0.87%
HSBC Nominees (New Zealand) Limited – NZCSD A/c ¹	2,515,582	0.81%
Accident Compensation Corporation – NZCSD A/c ¹	2,150,281	0.69%
Custodial Services Limited	1,889,252	0.61%
FNZ Custodians Limited	1,513,725	0.49%
National Nominees New Zealand Limited – NZCSD A/c ¹	1,061,603	0.34%
The Warehouse Management Trustee Company Limited	933,035	0.30%
	253,712,693	81.53%

¹ New Zealand Central Securities Depository Limited (NZCSD) is a depository system which allows electronic trading of securities to members. As at 16 September 2013, total holdings in NZCSD were 17,808,112 or 5.72% of shares on issue.

Distribution of Shareholders and Holdings as at 16 September 2013

SIZE OF SHAREHOLDING	NUMBER OF SHAREHOLDERS	PERCENTAGE	NUMBER OF SHARES	PERCENTAGE
1 – 1,000	4,513	41.54%	2,446,991	0.79%
1,001 – 5,000	4,563	42.00%	11,885,742	3.82%
5,001 – 10,000	996	9.17%	7,663,905	2.46%
10,001 – 100,000	718	6.61%	17,328,597	5.57%
100,000 and over	74	0.68%	271,870,633	87.36%
	10,864	100.00%	311,195,868	100.00%
Geographic Distribution				
Auckland and Northland	4,187	38.54%	247,710,130	79.60%
Waikato and Central North Island	1,945	17.90%	10,516,754	3.38%
Lower North Island and Wellington	1,903	17.52%	27,883,454	8.96%
Canterbury, Marlborough and Westland	1,082	9.96%	14,778,477	4.75%
Otago and Southland	777	7.15%	3,576,434	1.15%
Australia	813	7.48%	4,552,233	1.46%
Other Overseas	157	1.45%	2,178,386	0.70%
	10,864	100.00%	311,195,868	100.00%

Statutory Disclosures – continued

Distribution of Bondholders and Holdings as at 16 September 2013

SIZE OF BONDHOLDING	NUMBER OF BONDHOLDERS	PERCENTAGE	NUMBER OF BONDS	PERCENTAGE
5,000 – 9,999	271	14.52%	1,472,000	1.47%
10,000 – 49,999	1,300	69.67%	23,711,000	23.72%
50,000 – 99,999	175	9.38%	9,809,000	9.81%
100,000 – 499,999	98	5.25%	13,514,000	13.51%
500,000 – 999,999	11	0.59%	6,973,000	6.97%
1,000,000 and over	11	0.59%	44,521,000	44.52%
	1,866	100.00%	100,000,000	100.00%
Geographic Distribution				
Auckland and Northland	641	34.36%	24,990,000	24.98%
Waikato and Central North Island	340	18.22%	28,055,000	28.06%
Lower North Island and Wellington	396	21.22%	21,897,000	21.90%
Canterbury, Marlborough and Westland	253	13.56%	6,689,000	6.68%
Otago and Southland	215	11.52%	17,369,000	17.37%
Australia	6	0.32%	125,000	0.13%
Other Overseas	15	0.80%	875,000	0.88%
	1,866	100.00%	100,000,000	100.00%

Stock Exchange Listing

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

Ordinary Shares

The total number of voting securities of the company on issue on 16 September 2013 was 311,195,868 fully paid ordinary shares.

Holders of each class of equity security as at 16 September 2013

CLASS OF EQUITY SECURITY	NUMBER OF HOLDERS	NUMBER OF SHARES OR RIGHTS
Ordinary Shares	11,072	311,195,868
Share Rights		
– Executive share scheme	45	2,780,000

Rights Attaching to Shares

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

On-market Share Buy-backs

The company is not, at the date of this Annual Report, undertaking any on-market share buy-backs.

Statutory Disclosures – continued

Share Price History

The following tables show the high and low sale prices for the ordinary shares during the periods, indicated, based on mid-market prices at the close of business on the NZX for the following periods:

- (i) the five most recent financial years; and
- (ii) each of the six most recent months

(i) Five most recent financial years

	SHARE PRICE HIGH	SHARE PRICE LOW
	\$	\$
2013	4.39	2.58
2012	3.57	2.49
2011	4.05	3.35
2010	4.55	3.30
2009	4.05	3.02

(ii) The six most recent months

	SHARE PRICE HIGH	SHARE PRICE LOW
	\$	\$
September 2013	3.86	3.66
August 2013	3.89	3.65
July 2013	3.95	3.60
June 2013	3.85	3.40
May 2013	4.39	3.85
April 2013	4.00	3.49

Escrow

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

Dividends on Ordinary Shares

The Warehouse Group Limited has paid dividends on its ordinary shares every year without interruption since listing on the New Zealand Exchange in 1994. The Group's current dividend policy was approved by the Board in September 2010. The Group's dividend policy is to distribute 90% of adjusted net profit to shareholders.

On 12 September 2013 the Directors declared a fully imputed final dividend of 5.5 cents per share bringing the total dividend for the year to 21.0 cents per share. The dividends will be fully imputed at a rate of 30.0% and will be paid on 12 December 2013 to all shareholders on the share register at the close of business on 29 November 2013.

The dividends declared for each of the last five financial years were as follows:

Cents per share

DIVIDENDS	2013	2012	2011	2010	2009
Interim	15.5	13.5	15.5	15.5	15.5
Final	5.5	6.5	6.5	8.5	5.5
Subtotal	21.0	20.0	22.0	24.0	21.0
Special	-	-	-	6.5	10.0
Total	21.0	20.0	22.0	30.5	31.0

Auditor

PricewaterhouseCoopers have continued to act as auditors of the company, and have undertaken the audit of the financial statements for the 28 July 2013 year.

Disciplinary action

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

Donations

In accordance with section 211(1)(h) of the Companies Act 1993, the company records that it donated \$366,000 (2012: \$240,000) to various charities during the year. In line with board policy, no political contributions were made during the year.

NZX waivers

Details of all waivers granted and published by NZX within or relied upon by The Warehouse in the 12 months immediately preceding the date two months before the date of publication of this Annual Report are available on the company's website www.thewarehouse.co.nz.

Material differences

There are no material differences between NZX Appendix 1 issued by the company on 13 September 2013 for the year ended 28 July 2013 and this Annual Report.

DIRECTORY

Board of Directors

Graham Evans (Chairman)
Keith Smith (Deputy Chairman)
Sir Stephen Tindall
Antony (Tony) Balfour
James Ogden
Janine Smith
Eduard (Ted) van Arkel

Group Chief Executive Officer

Mark Powell

Chief Financial Officer

Stephen Small

Company Secretary

Kerry Nickels

Place of Business

26 The Warehouse Way
Northcote, Auckland 0627
PO Box 33470, Takapuna
Auckland 0740, New Zealand

Telephone: +64 9 489 7000

Facsimile: +64 9 489 7444

Registered Office

C/- BDO
Level 8, 120 Albert Street
PO Box 2219
Auckland 1140, New Zealand

Auditor

PricewaterhouseCoopers
Private Bag 92162
Auckland 1142, New Zealand

Shareholder Enquiries

Shareholders with enquiries regarding share transactions, changes of address or dividend payments should contact the Share Registrar.

You can also manage your shareholding electronically by using Computershare's secure website, www.computershare.co.nz/investorcentre, whereby you can view your share balance, change your address, view payment and tax information, update your payment instructions and update your report options.

Share Registrar

Computershare Investor Services Limited
Level 2, 159 Hurstmere Road, Takapuna
Private Bag 92119, Auckland 1142
New Zealand

Telephone: +64 9 488 8777

Facsimile: +64 9 488 8787

Email: enquiry@computershare.co.nz

Website: www.computershare.co.nz/investorcentre

Direct Crediting of Dividends

To minimise the risk of fraud and misplacement of dividend cheques, shareholders are strongly recommended to have all payments made by way of direct credit to their nominated bank account in New Zealand or Australia.

Investor Relations

For investor relations enquiries, **email** investor@twl.co.nz

Stock Exchange Listing

NZSX trading code: WHS

Company Numbers

NZ Incorporation: AK/611207

Website

www.thewarehouse.co.nz

**Sustainable
Business Council** 

 New Zealand partner to the World Business Council for Sustainable Development

The company is a member of the Sustainable Business Council ("SBC").

The SBC is a coalition of leading businesses united by a shared commitment to sustainable development via the three pillars of: economic growth, ecological balance and social progress.

Its mission is to provide business leadership as a catalyst for change toward sustainable development and to promote eco-efficiency, innovation and responsible entrepreneurship.



World Business
Council for Sustainable
Development

The company is a member of the World Business Council for Sustainable Development ("WBCSD").

The WBCSD is a CEO-led, global association of some 200 companies dealing exclusively with business and sustainable development. The Council provides a platform for companies to explore sustainable development, share knowledge, experiences and best practices, and advocate business positions on these issues in a variety of forums, working with governments, and non-governmental and inter-governmental organisations.



FTSE4Good

The Warehouse is a constituent company in the FTSE4Good Index Series.

The FTSE4Good Index Series has been designed to objectively measure the performance of companies that meet globally recognised corporate responsibility standards.

