thewarehouse

where everyone gets a bargain

/ THE WAREHOUSE GROUP LIMITED /

LIMITED / ANNUAL REPORT 2011 / THE

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2011
2011
manchester
homewares
LOW PRICE CHAMPION
as advertised
2 for $35
MORE FOR LESS
new season here
simply great value
$16

November
25

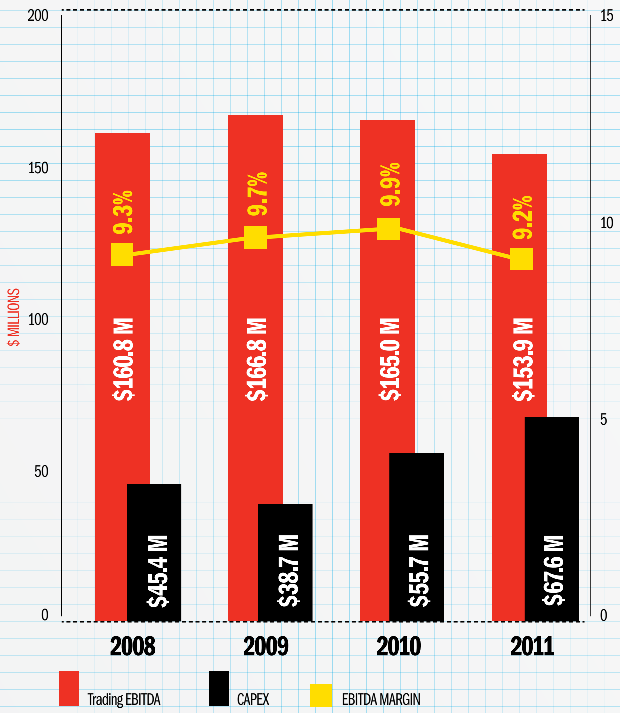
The Annual Meeting of Shareholders of the Company will be held in the Guineas Ballroom, Ellerslie Events Centre, 80–100 Ascot Avenue, Greenlane East, Auckland, New Zealand, on Friday 25 November 2011 commencing at 10.00am.

This Annual Report is dated 17 October 2011 and is signed on behalf of the Board by:

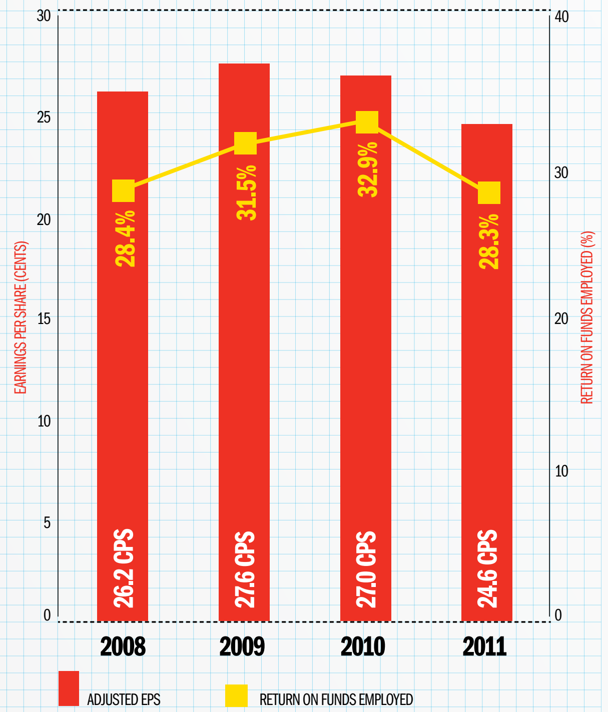
Graham Evans Chairman	**Keith Smith** Deputy Chairman

Overview

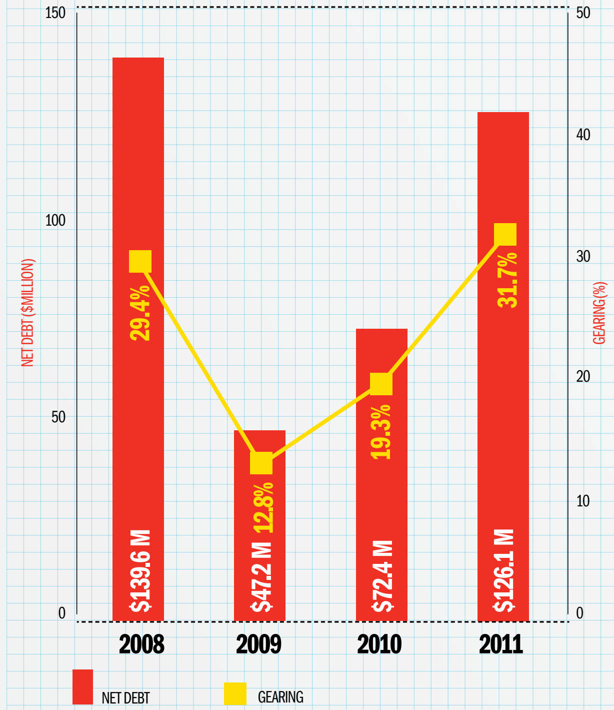
Operating earnings and investment



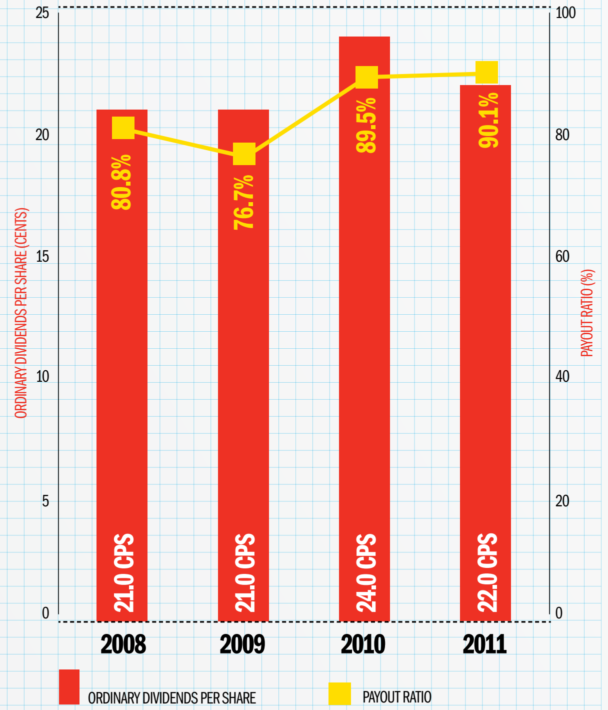
Adjusted earnings per share and ROFE



Net debt and book gearing



Ordinary dividends



The Warehouse

- Same-store sales down 0.9%, with a lift of 1.4% in the second half
- Positive momentum in all growth categories
- 'Everyday needs' category up 4.9% year-on-year
- Core 'Head to Toe' and 'Home' categories sales flat on last year
- Sector decline continues in entertainment and consumer electronics categories despite market share increase
- Trading margins maintained in a promotionally driven market
- Online sales doubled
- Significant investment in store refits and modular investments

where everyone gets a bargain

Silverdale retail centre development commenced

where everyone gets a bargain

Footprint expansion

- Larger replacement store opened in Gisborne
- New store opened in Rolleston
- Extensions to Timaru and Pukekohe stores completed
- New site development in Royal Oak commenced

where everyone gets a bargain

Warehouse Stationery

- Same-store sales up 4.6%, with a lift of 6.0% in the second half
- Growth in computer products and mobile phones
- Footprint expansion delivering sales and EBIT growth
- Flow-on from prior year store openings remains strongly positive
- Investment in new store fit-outs and refits

Four new stores opened this year:

Kerikeri
Gisborne
Levin
Riccarton

88 The Warehouse stores

51 Warehouse Stationery stores

Chairman and CEO's report

The 2011 financial year, although challenging from both an economic and retail perspective, again demonstrated the underlying resilience of our core business. As such, your Board is confident that the strategy we are embarked upon, which focuses on retail fundamentals including a significant allocation of capital directed at getting those fundamentals right, will translate into sustainable sales and earnings growth over the medium to long term.

Despite the challenging conditions experienced in the past year, we have maintained overall profitability, continued to generate strong operating cash flows and have delivered solid returns to shareholders by way of ordinary dividends.

Group sales for the year ended 31 July 2011 were $1.667 billion, down 0.3% on the previous year. Sales for the second half were $759.8 million compared to $753.8 million last year, up 0.8%. Adjusted net profit after tax for the year, excluding unusual items, was $76.0 million compared to $83.4 million in F10, down 8.9%. Net profit after tax for the second half, excluding unusual items, was $23.1 million compared to $26.4 million in the second half last year.

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

The Warehouse

The Warehouse reported sales of $1.463 billion compared to $1.476 billion in F10. Both total sales and same store sales were down 0.9% for the year. Sales for the second half were $654.9 million, flat on the comparable period last year with same store sales up 1.4% for the half. The Warehouse delivered an operating profit of $98.8 million for the year compared to $112.7 million last year, down 12.3%, mainly a function of sales deleverage and increased store related variable costs.

Despite the challenging environment, positive sales momentum was maintained in all our growth categories. Our 'Everyday Needs' category was up 4.9% year-on-year and a solid contributor in the second half of the year. The success of our investment in online retailing continues with sales doubling as we continued to expand our range and drive traffic to the site. We will have nearly all of our core categories strongly represented online by mid 2012.

The market was particularly difficult in our core 'Head to Toe' and 'Home' categories. Whilst volumes were up year-on-year, these key categories delivered flat sales overall due mainly to the effects of price deflation, in part due to a strong NZ dollar compared to the US dollar. We are also continuing to feel the effects of structural changes occurring in the entertainment and consumer electronics categories driven by the pace of technological developments impacting the way these products are now delivered to customers.

While the underlying results are down on last year, we are confident in the strength of our core business. Looking forward, the company is now focused on implementing a strategy based on improved retail execution and significant capital reinvestment in the company's stores. We recognise it will take time to build momentum with the level of investment required planned to be made over a five year period.

We are confident that customers will respond positively to what we are doing; we believe this will translate into sustainable sales and earnings growth over the medium to long term.

Warehouse Stationery

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

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

We enjoyed significant growth in computer products and mobile phones over the period, a result of focusing on our 'Heart of the Office' proposition. Footprint expansion is also delivering the desired increase in sales and EBIT growth with eight new stores now having been opened over the past three years.

Dividend

The Directors have declared a final dividend of 6.5 cents per share bringing ordinary dividends for the year to 22.0 cents per share, down 2.0 cents compared to the previous year. Dividends will be fully imputed at 30.0%. Total dividends for the year represent a payout ratio of 90.1% in line with the company's stated policy.

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

Management and Board Changes

This year heralded significant change in the leadership of The Warehouse and its Board. Ian Morrice stepped down as Managing Director in May 2011 having led the business through a period of unprecedented change in both the economic and competitive environments. Ian maintains an executive role with the business until November 2011.

Group Chief Executive Officer Mark Powell assumed his new role in May 2011. Mark has held senior roles with The Warehouse, most latterly as Chief Executive Officer of Warehouse Stationery where he has led a team implementing a new strategy and achieving positive sales growth.

Coinciding with the Group Chief Executive Officer change, previous Chairman Keith Smith became Deputy Chairman and was succeeded by Graham Evans. Keith has been involved with The Warehouse Group since the first store was opened in 1982, and was Chairman from 1995. Graham has been a Director of The Warehouse Group since 1998. He brings considerable experience to the chairmanship, with more than 40 years in the New Zealand retail sector, including his tenure on The Warehouse Board and 16 years as Managing Director of Woolworths NZ.

In July 2011, we welcomed our new Board member, Ted van Arkel, to the Board. Ted is an experienced professional director with significant retail experience, adding to the depth and breadth of commercial skills on your Board.

Mark Callaghan regretfully resigned as a Director in July 2011 to take up an executive role in another organisation which is a supplier to The Warehouse.

After 15 years as a Director of the company, Rob Challinor announced his intended retirement. Rob has made a significant contribution to the development of the company, particularly in the areas of corporate governance, financial reporting and corporate strategy, including acquisitions and divestments. Rob's commercial and technical skills will be greatly missed. His retirement will take effect after the conclusion of the 2011 Annual Meeting on 25 November.

Capital Investment Intentions

The company recently announced a capital investment programme of $430 million over a five year period. This includes investment across a wide spectrum of retail activity including new stores, upgrades to both the exteriors and interiors of existing stores, systems infrastructure and a number of product related merchandising initiatives. As part of this strategy, The Warehouse opened a larger replacement store

in Gisborne and completed extensions to the Timaru and Pukekohe stores. Construction of the Silverdale Retail Centre commenced during the year and we are about to commence construction of a new store in Royal Oak. In addition, investment in store refits and modernisation was undertaken with significantly more planned over the coming years.

Four new Warehouse Stationery stores opened during the year in Kerikeri, Gisborne, Riccarton and Levin as part of our strategy to achieve national coverage.

Outlook

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

Although our objective remains to deliver value to shareholders over the long term, having assessed a number of factors, including the shorter-term impact of the company's strategic plan and reinvestment programme, the Board is of the view that earnings for F12 are likely to fall below that achieved in F11.

We have a sound core business with strong fundamentals and a strategy to take the business forward. We also have passionate and dedicated Team Members throughout our business who deliver value to our customers every day.

As we go forward into the new business year, we would like to thank everyone who makes us an iconic business: our customers and suppliers, our shareholders and Team Members – we thank you all for your commitment and ongoing support.

Graham Evans
Chairman

Mark Powell
Group Chief Executive Officer

The Board

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 Remuneration, Talent and Nomination Committee

Graham, 72, 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, he is Chairman of Multichem Group Limited and associated companies.

BCom, FCA
Deputy Chairman and Independent Non-Executive Director

TERM OF OFFICE: Appointed Director 10 June 1994, last re-elected 2008 Annual Meeting

BOARD COMMITTEES: Chairman of the Disclosure Committee and Member of the Audit Committee and Remuneration, Talent and Nomination Committee

Keith, 59, 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. Keith 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 Tourism Holdings Limited and is a director of Mighty River Power, PGG Wrightson 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.

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 Remuneration, Talent and Nomination Committee

Sir Stephen, 60, 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 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.

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

BCom, FCA, FCIS, CMA, DistFInstD
Independent Non-Executive Director

TERM OF OFFICE: Appointed Director 28 November 1996, last re-elected 2008 Annual Meeting

BOARD COMMITTEES: Member of the Audit Committee and Corporate Governance Committee

Rob, 69, brings strong corporate governance and finance expertise to the Board. He has over 25 years' experience as a director of numerous public and private companies. Earlier in his career, Rob was a partner with Deloitte New Zealand and investment bankers Northington Partners Limited. Rob is currently a director of listed CDL Investments New Zealand Limited. His former directorships include listed investment companies Barramundi Limited, Kingfish Limited and Marlin Global Limited (Chairman), Mighty River Power Limited (Chairman), Ports of Auckland Limited, Electricity Corporation of New Zealand Limited, Tower Health and Life Limited (Chairman), Sheffield Limited (Chairman) and Television New Zealand Limited (Deputy Chairman).

BCA (Hons), FCA, FInstD
Independent Non-Executive Director

TERM OF OFFICE: Appointed Director 4 August 2009, last elected 2009 Annual Meeting

BOARD COMMITTEES: Chairman of the Audit Committee and Member of the Disclosure Committee

James, 59, 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 11 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, he is a Director of Vehicle Testing Group Limited, Summerset Group Holdings Limited and Seaworks Limited. James is also is a Member of the Council of Victoria University of Wellington. Former directorships include New Zealand Post Limited, Kiwibank Limited, NZX-listed Powerco Limited and Capital Properties New Zealand Limited.

BCom, MPhil (Honours 1st Class)
Independent Non-Executive Director

TERM OF OFFICE: Appointed Director 3 August 2006, last re-elected 2009 Annual Meeting

BOARD COMMITTEES: Chairman of the Corporate Governance Committee and Chairman of the Remuneration, Talent and Nomination Committee

Janine, 56, 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. Janine specialises in boardroom practice, strategic planning, organisational development and organisational change issues for boards and management. She is currently Chairman of AsureQuality Limited and McLarens Young New Zealand Limited, a director of Steel & Tube Holdings Limited and a Principal of The Boardroom Practice Limited. Former directorships include Kordia Group Limited, Bank of New Zealand, Airways Corporation, Venture Taranaki and Auckland Philharmonia Orchestra. She is an alumna of the London Business School and The University of Auckland and is a member of the Institute of Directors.

FNZIM
Independent Non-Executive Director

TERM OF OFFICE: Appointed Director 1 July 2011

BOARD COMMITTEES: Member of the Audit Committee and the Remuneration, Talent and Nomination Committee

Ted, 68, 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 New Zealand Limited, Health Benefits Limited and UNITEC Institute of Technology, Ted is also a director of Abano Healthcare Group Limited and several private companies. Prior to becoming a professional director, he was Managing Director of Progressive Enterprises Limited.

SOURCE: The Warehouse Limited research

The Warehouse, where everyone gets a bargain.

This iconic tag line is precisely what we do and have done since we started in 1982 – and we stand by this value proposition. We know our customers have more choice than ever before and higher expectations about the products they are buying, what represents value and how and where they will shop. They come to us because they know and trust our brand and we deliver simply great value across our huge range of quality products.

Trading environment

The past few years have been characterised by a trading environment made uniquely challenging by the collapse of global financial markets and the resulting downturn in economic activity, combined with increasing competition and significant shifts in consumer sentiment and behaviour. Over this period, however, we have maintained profitability and continued to generate strong cash flows.

The Global Financial Crisis and resulting recessionary environment have continued to suppress consumer confidence and spending. At the same time, we are faced with ever-increasing local competition in a promotionally driven market. Consumers are savvy, changing where and how they shop and often researching before they purchase many items, including their daily essentials.

In the latter part of the financial year, we focused on developing a strategy for sustainable sales and earnings growth over the medium to long term. The newly configured executive team has been instrumental in driving the new strategy and I know they will deliver the change we desire. Retail is about detail. It's not complicated. Everything starts and finishes with the customer. We have to ensure our people are delivering for the customer and we have to deliver a profit. We will improve the execution of the basics: achieving the mix of product, price, promotion and our in-store environment. We will deliver on these basics by being customer led and store focused with a people-centred culture.

Where everyone gets a bargain

One in five New Zealanders come into our stores each week. They come to us to get their essential household items, such as towels, cookware, t-shirts and socks, knowing they will also find 'knock out' bargains. To meet their expectations, we must consistently provide a huge range, low prices, excitement and trust.

Where everyone gets a bargain has incredible resonance with New Zealanders. Our customers can rely on us to supply exciting products at bargain prices, but we also want them to trust us to provide all their essentials. We aim to build on this by being the house of bargains and the home of essentials.

Key elements of our strategy going forward

- **We've developed a clear framework for our brand on pricing, products and promotion**
- **We'll drive growth in product categories**
- **We are radically improving the store experience through great execution**
- **We are rejuvenating our store infrastructure**
- **We are establishing a clear way of working**

In-store experience

Our customers' experience in-store is what really counts. Credibility with customers that we can deliver on the retail basics is vital if we are to successfully move into new categories. We have already put some changes in place. We have boosted front-line team numbers, improved support systems and we are training our team to "see things through the customer's eyes". We acknowledge it will take time for our customers to recognise the improvements. Initial feedback is extremely positive with an improved perception of the way stores 'look and feel'. We are confident other performance improvement measures will start to follow through shortly.

Our focus is on putting the things in place that will get us to where we want to be. We will continue to ensure there are sufficient resources, training and support for consistent in-store execution of the basics from clean and tidy stores of which we are proud, through to product knowledge and improved on-shelf availability. These are all critical to driving increased sales and improved customer experience.

Rejuvenating our stores

The store is the physical embodiment of our brand and what it stands for. We've refreshed our brand and, over the next three to five years, we plan to invest nearly $250.0 million to improve the internal and external presentation and layouts of our stores. We have analysed our network to determine the optimum format for each store so that we can be sure we're spending money where it will be most effective.

Great value across our huge range of quality products

We are being true to our brand values and personality, driving hard on bargains and essentials. We are discounting in a focused and deeper way, shaping our advertising to constantly show customers our bargain prices and our extensive product range of essential items in a competitive environment.

Across our categories, we offer some of the world's leading consumer brands as well as national and high-quality house brands. For example, favourites among our customers include Apple, Philips, Lego, Persil, Huggies, Sistema, Just Compost and Potting Mix, Harrison and Lane, and Maison d'Or manchester.

In addition, the recent launch of 2degrees gives our customers the full range of telecommunications providers, their products and services.

Core categories

We will continue to support and drive growth in our core 'Head to Toe' and 'Home' categories. This year in 'Head to Toe', we increased the range of leading international and national brands on offer by introducing Bisley Workwear, Rose & Thorne lingerie, Hanes underwear, and Saben Says jewellery and accessories. We now offer a full range of Mambo fashionwear and Havaianas footwear too, improving our range of quality and on-trend fashion.

WOW

The depth and breadth of our product offering at bargain prices is what our brand stands for. Our promotional campaigns, along with the introduction of our new WOW deals, Opportunity Buys and Managers' Specials, drive home the bargain aspect of our offer to our customers. Simultaneously, our improved ranges and availability are ensuring customers can always trust us for their essentials.

Growth opportunity

We have identified a number of categories where there's potential for us to grow. We see opportunities in jewellery and health and beauty products. We are improving the presentation of our jewellery counters. Over the next few years, we'll be expanding the category areas where we see the most promise. With the right framework in place, this can happen without compromising the areas where we are already leading.

Zones

The introduction of 'Zones' in-store brings together consumables and general merchandise – giving us a point of difference. For example, our new Baby Zone delivers the full baby offer to customers; they can get their Huggies along with a new cot or stroller. Similarly, we have also introduced Pet Zone and Book Zone.

New look

Our new product, price and promotional framework will continue to be rolled out in F12 to drive sales growth. The recent refresh of The Warehouse brand brings a contemporary look and feel to our customer communications. Our new-look mailer, which now has a wider distribution base, marked the commencement of the roll-out.

A clearer way of working

We know that behind every successful Store Manager is an engaged team. Collectively, these teams combine to make a strong business model. We're working hard to ensure that all Team Members – whether they are buyers, marketers or those operating our checkouts – can see how they fit into the business and how their contribution helps the team pull together to succeed.

Our framework provides a compass for decision-making giving us confidence our people will do the right thing for our customers and our business. Alongside this, we are allowing them the freedom to run the stores so that they have the flexibility to see problems or opportunities and respond to them. Getting this right underpins our entire strategy. Consistency of purpose is key to keeping our team focused on delivering improved performance for customers and shareholders.

Our in-store 'Way of Working' framework and training has been rolled out focusing our teams on 'Working Smarter' and 'Selling Smarter', driving an improved sales and service culture. This is a significant investment targeting consistency and smarter ways of working throughout the business. The first step in this process was to roll out the store model of 'Selling Smarter' that builds sales capability and embeds our solutions-based sales philosophy. Store Managers are empowered within the new 'Way of Working' framework ensuring both speed and deliberation, and always that the customer comes first.

Over the next 12 to 18 months, we will embed the 'Working Smarter' model along with a programme targeting areas of customer service improvement in-store.

Programmes within our clear 'Way of Working' are being rolled out through other functions, such as Merchandising, in tandem with our Advanced Management, Category Management and Store Development programmes which build strength in key areas of the business and excellence in current roles.

It has long been our way to support our people's development to realise their potential through a range of internal programmes focused on leadership, performance and commercial acumen, wellness and health and safety. We have clearly defined career paths and offer learning and development opportunities to aid progress around the organisation.

Highly engaged employees are more productive, more customer focused, safer and less likely to leave. We offer an extensive range of programmes to assist in workplace health and safety as well as individual wellness. We are pleased with the impact of these programmes and continue to improve across a variety of measures including a reduction in our Lost Time Injury Frequency Rate. For the sixth year running, we have been audited by ACC and have retained our tertiary status.

Our future success

The Warehouse has a special place in the hearts and minds of New Zealanders. We have an incredible heritage and an incredible team.

We are a sound business with a sound strategy to take us forward. We will maintain our clear focus on the basics of retail execution and the significant reinvestment in our stores to improve our customers' experience and we will continue to create excitement through the right product and price and the way in which we communicate with our customers. This will be supported by our clear 'Way of Working' model to ensure we deliver a truly 'Customer Led, Store Focused, People Centred' culture.

We are confident that customers will respond positively to what we're doing; we believe this will translate into sustainable sales and earnings growth over the medium to long term.

I would like to thank all of our team for your outstanding commitment to the business and to our customers in these challenging times. I know we have a team that is highly talented and passionate about The Warehouse and what we stand for.

Mark Powell
Group Chief Executive Officer

We were pleased to maintain
84%
retention rate

And in our distribution centres
96%
retention rate

We employ approx. 8,000

Investing in our stores

Our footprint growth plans are well under way with projects delivering additional new stores, replacement stores and the expansion of existing stores. Over the next five years, we will increase our selling space by approximately 30,000 square metres. At the same time, we will be refitting the exteriors and interiors of the stores in our existing network.

This year, we expanded our Pukekohe and Timaru stores and opened a new replacement store in Gisborne. In September 2011, a new larger store was opened in Hastings and we commenced trading at our new store in Whitianga.

External modernisation programme

We are working with our landlords around the country on a five-year programme to improve the look of the exterior of our buildings, rolling out a consistent modern look across the portfolio. Maintenance and initiatives such as installation of energy-efficient lighting will also be carried out at this time. We are targeting around 50 stores under the modernisation programme.

In-store environment

We believe our customers come to us as we deliver 'value for money' in the best available retail spaces in New Zealand. It is vital to us that we continually improve our customers' in-store experience. Our objective is to have the right products at the right price, all with the right store aesthetics.

Our internal store refresh and refit programme continues to deliver a contemporary, pragmatic and modern look to our in-store shopping environment. This significant investment programme will result in over 60 stores having a new look by Christmas 2011. Our three Bay of Plenty stores, Tauranga, Papamoa and Fraser Cove, have already received significant internal upgrades.

Our programme of modular investments included the installation of new jewellery counters in 41 stores; these significantly improve presentation thus supporting sales growth in this category. A new look and feel for our book department is now in place in 17 stores.

Pah Road, Royal Oak

Resource consent has been granted for a new Warehouse store development at Pah Road, Royal Oak. Development is about to commence and is expected to open in late 2012. Our architects have designed a modern building in keeping with the surrounding area.

Silverdale: our most significant development in a decade

Back in 1994, The Warehouse had the foresight to purchase a seven-hectare property in Silverdale. Population growth in the surrounding area of Whangaparaoa and the encroachment of Auckland had the hallmarks of a future demographic that could support a large-scale development. The area, now showing the fastest population growth in New Zealand, is about to benefit from our new 23,000m² retail development: a unique shopping experience with a more diverse offer than anywhere else in the district.

This exciting new development will bring together anchor tenants The Warehouse, Warehouse Stationery and Countdown. Space for an additional 32 tenants including fashion, food, homewares and electronic retailers is currently being marketed. Strong interest has been received from national retailers to locate on the development.

The area is rich in history and our architects Stiffe Hooker and construction partner Naylor Love have incorporated features into the design and build that showcase Silverdale's distinctive past. Use of timber and native plants bring the natural environment to the site and large sedimentary rocks known as 'concretions' – which are unique to the surrounding landscape – are incorporated into the extensive landscaping.

This project commenced in 2009 and is being led by our property team. It is scheduled for completion in late 2012.

Architect's impression

Communities and environment

At The Warehouse, we recognise that choices we make today affect the future environment. We need to play our part in ensuring that growth today does not compromise opportunities for future generations. To be a sustainable business, we need to extend our conscience beyond immediate commercial imperatives. We believe that this is good for business and for the long-term interests of our shareholders and other stakeholders.

8,013

Team Members	
2010	7,805
2009	7,632

84.2%

Retention Rates	
2010	84.8%
2009	78.8%

$2.4m

Charity Fund-raising	
2010	$2.3m
2009	$1.8m

19,818

Waste (m³)	
2010	18,427
2009	22,972

6.9m

Plastic Bags Issued	
2010	7.2m
2009	27.0m

155

Electricity (Store kWh/sqm/pa)	
2010	154
2009	148

For further information on our activities and progress, go to www.thewarehouse.co.nz/red/content/homepage/communities-and-environment/reports to download our Community and Environment Report.

The Canterbury earthquakes

The earthquake of 22 February 2011 unleashed immeasurable suffering onto the people of Christchurch with the city centre's buildings crumbling, many homes destroyed and, tragically, many lives were taken. The 6.3 magnitude quake struck near Lyttelton, causing mass destruction. The region, its people, their homes and many businesses suffered huge losses – many having not recovered from the impact of the previous quake of September 2010.

The Warehouse Group extends its heartfelt sympathy to all the people of Canterbury who suffered loss – the emotional and financial tolls are quite simply enormous. We extend our thoughts to everyone here in New Zealand and for those overseas who lost loved ones. To our teams on the ground, we thank you and your families for working through this devastating time. We know many of you suffered significant personal loss.

We are grateful that all of our Team Members and customers were evacuated safely from our stores whilst only one customer received minor injuries from falling stock.

The ongoing aftershocks and the quake on 13 June 2011 continued to test the region and its people.

We stood by our Team Members, customers and the community then – and we will continue to stand by you.

Our team

The Warehouse Group's 13 The Warehouse stores, South Island Distribution Centre and seven Warehouse Stationery stores were closed immediately following the September 2010 and February 2011 earthquakes in order for structural engineers to assess the impact and ensure each location was structurally sound before the decision was made to recommence trading on a store-by-store basis.

There are over 900 Team Members employed by The Warehouse Group in the region. We know the ramifications on our people were huge – many suffered structural damage to their homes and had no sewerage and water – let alone the emotional toll. We supported our Team Members on a case-by-case basis as we all worked through this traumatic experience. Services were provided to lessen the impact and reduce the financial and emotional burden. Where stores were closed temporarily, employment was provided at other locations.

Community support

Supporting our community is simply a part of The Warehouse's DNA – it's what we do day-in and day-out throughout New Zealand. The economic ramifications of the February quake and the rebuild alone will stretch the resources of our nation. By pulling together, we know that we make it just a little bit easier for the residents and businesses of the region to start out again – and of course it's important for us to provide ongoing support to our own people.

Following the September 2010 quake, we donated $500,000 to the NZ Red Cross Canterbury Earthquake Appeal to help the devastated community. We had coin donation boxes and point-of-sale donations in-store, donations could be made via our website and our teams nationwide initiated a number of their own fund-raising efforts. All donations collected were paid to the NZ Red Cross Canterbury Earthquake Appeal for distribution. We also provided much-needed emergency supplies to Civil Defence, EQC and other independent groups.

The Warehouse Charitable Trust has been established with an initial pledge of $500,000 from The Tindall Foundation to assist Team Members and selected community groups who require support in the medium to long term as a result of natural disasters that have directly affected them. The immediate priority of the Trust will be to support Team Members and community groups who reside in the Christchurch area and who require assistance as a result of the 2010/11 Canterbury earthquakes.


Endorsed by
RICOH
We are New Zealand's 'One-stop Shop' to help people 'work, study, create and connect'.
IMPACT
80GSM A4
WHITE
500 Sheets

Warehouse Stationery, huge range, low prices.

We are New Zealand's 'One-stop Shop' to help people 'work, study, create and connect'. We believe we have a unique position in the New Zealand retail landscape and our customers clearly believe in us too. We are the only retailer in New Zealand with a significant nationwide presence in technology, furniture, art and craft, and stationery. What's more, we have an improved store network and our teams have product knowledge and service attitude that we believe is second to no other retailer.

More in-store

We have continued our relentless drive to ensure the right product, price, promotion and placement within our retail setting. We strengthened our 'Heart of the Office' product offer with the introduction of further leading brands, such as Toshiba, Samsung, eMachines and Acer, and we now have the HP store-within-a-store concept in Wairau Park, demonstrating the digital hub concept and how all HP products work together. Our 'Need a Nerd', 'Mobile Mentor' and 'No Worries Warranty' support services are well embedded and attractive consumer finance and leasing options have been extended to suit consumer and small-business needs.

The New Zealand business environment is dominated by small-to-medium sized businesses with agile managers and workers who are always on the move. We know they are reliant on all forms of portable technology – so we continue to meet their needs by expanding our range of mobile phones and services, laptops and tablets. We have strengthened our rewards programme for them too, with the popular BlueBiz rewards now offering them the opportunity to reduce business costs through crediting rewards against their accounts, through the redemption of vouchers for themselves or their teams, or they can gift them to a variety of charities.

New Zealand Art and Craft lovers visit us on a regular basis to purchase all their needs – for anything from school projects to their personal art projects; they appreciate the more recent introduction of yarns and sewing machines. Our Art, Craft and Book ranges have been extensively refreshed and we are seeing the positive results in these categories. In addition, we have expanded the offering to include educational books and more seasonal goods.

Our marketing campaigns continue to educate and inform customers, whilst reiterating our price and range leadership. We are ensuring this increased foot traffic converts into happy customers with the largest investment in people training in the organisation's history – our 'Selling Smarter' programme builds sales capability and embeds our solutions-based sales philosophy. In its second year, the programme now has extensive 'Product Knowledge' training delivered in conjunction with our suppliers – this takes place nationwide throughout the year.

Our sales growth affirms our strategic approach and the focused effort we applied to our business strategies:

- **A compelling product mix based on our customer promise of huge range, low prices**
- **A store refresh programme to ensure consistent branding and internal look and feel**
- **Improvement of the store experience through great execution**
- **A more sustainable business account offering, and building our BlueBiz rewards programme**
- **Reconfiguration of our webstore to be more customer friendly and faster**
- **Embedding the blue sheds' way of working**

We have and will continue to focus on these areas of our business as we continue to build momentum and long-term returns.

From 47 to 51 stores: we're counting and we're proud

Our performance and the strength of our foundations allow us to step up our investment in growing and optimising our footprint and modernising the exteriors and interiors of our stores. We optimised our floor space in three stores to increase our return on investment.

Through the period, we opened four new stores in Kerikeri, Riccarton, Levin and Gisborne allowing us to increase our scale and reach.

In the 2010 financial year, every store exterior was modernised. Pleasingly, in 2011 we drove a programme to refresh and improve our customers and Team Members' experience inside our stores. We are proud of every store as a result of an extensive investment in new display systems, signage and a new overall improved in-store aesthetic with better navigation.

Our long-term investment in store footprint growth will continue as we are determined to achieve a more comprehensive national coverage and to drive sales growth. We are planning to invest in nine further stores over the next three to five years and are pleased with the progress we are making on our pipeline of sites.

'Heart of the Office'

Great brands

Low prices

Store-within-a-store

Working smarter

We know we have the right people in the right jobs, doing the right things. They are also highly engaged so we know they are more productive, more customer focused, safer and less likely to leave. Our team recorded another great engagement score as measured each July by the JRA Best Workplaces survey. This was an outstanding achievement building on the award-winning result of last year. In November 2010, our performance was acknowledged by the JRA Best Workplaces awards for two categories – the 'Most Improved Award' recognising the biggest lift in engagement by all entrant companies, and 'Best Large Workplace'. Our team was pleased with this external recognition of what they already know – we have strong leadership, rewarding careers and offer great training and development opportunities.

The investment in building the capability of the organisation paid dividends this year when a change in our structure resulted in all bar one executive-level placements being made from within our existing team, with most of their roles then filled from our talent pipeline.

During the year, we strengthened our 'Working Smarter' model throughout our store network and implemented our new 'Merchandise Way of Working' to build capability and agility within that function. New leadership and management capability training was made available for our Store Managers and a Retail Learning Pathway is now in place with a framework of learning and development opportunities for all roles in our stores.

Following the decision to use a values-based approach to recruitment, we centralised our model and are pleased with the cost reductions and what we believe are better team placements being made into the business.

We are committed to our ongoing investment in our people's performance and we are pleased with the resulting continuous improvement we are seeing in our business.

INCREASING OUR ONLINE PRESENCE AND THE BREADTH AND DEPTH OF OUR PRODUCTS AND PROMOTIONS AVAILABLE ONLINE WILL CONTINUE AS A STRONG SUPPORT TO OUR STORE NETWORK.

Positioned to follow our customers

Our customers are conducting research before they come in-store and, increasingly, they are purchasing online as they meet the pressures of their own busy lives. To help them we have improved the speed, accessibility and navigation of our online store. Additionally, in just 12 months, we built our presence on Facebook with our customers engaging with us on a frequent basis – we now have in excess of 8,000 Facebook fans.

Canterbury

The devastating earthquakes in Canterbury took a toll on our customers, our team and the community. We extend our sympathy to everyone who has been impacted over the last 12 months. Whilst all stores returned to operating very quickly after the September and December quakes, the third big quake in February resulted in the closure of the South City store. At the time of this report going to print, the store remains closed. All of our Team Members from this store are currently redeployed in roles at other stores and will return to South City when it is reopened.

Standing by our communities

We are proud of the support we provide each year to many charitable groups throughout New Zealand – it's simply the right thing to do. In a challenging recessionary year when many charitable groups were seeking new supporters, we focused our efforts and are now proudly supporting more charitable organisations at a nationwide level than ever before.

The addition of the World Vision 40 Hour Famine and a Salvation Army programme that provides basic stationery requirements to Kiwi children at the start of the school year gives us a family of charities that provide youth a 'hand up' on their life journeys.

We proudly continue our association with First Foundation and Making it on My Own (MIOMO): two proven groups providing a 'hand up' for youth in the community.

During the year, we introduced 'Support Your Schools', a reward system for schools based on our BlueBiz rewards for business account holders. 'Support Your Schools' allows our customers' to earn BlueBiz rewards points on their purchases – they then donate their reward points to schools of their choice. More than 330,000 BlueBiz rewards have been raised, with 529 schools benefiting in the six months from the launch of the scheme. Schools have redeemed points on much-needed stationery, technology, sports equipment and more.

To our team

We are proud of many of our achievements this year – our team is focused and there has been accelerated progress on our growth platforms. Our team in Canterbury, despite the most trying of times, achieved some of the highest engagement scores of the organisation. I would like to thank every single Team Member nationwide for your efforts in 2011.

Tania Benyon
Chief Operating Officer

Scan the QR code with your smartphone to link to our website

2011 Financial Statements

Financial Statements

FOR THE 52 WEEK PERIOD ENDED 31 JULY 2011

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

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

Graham Evans
Chairman

Keith Smith
Deputy Chairman

CONTENTS

Income Statements

FOR THE 52 WEEK PERIOD ENDED 31 JULY 2011

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

Statements of Comprehensive Income

FOR THE 52 WEEK PERIOD ENDED 31 JULY 2011

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

The accompanying statement of accounting policies and notes to the financial statements on pages 35 to 74 form an integral part of the financial statements.

Balance Sheets

AS AT 31 JULY 2011

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

The accompanying statement of accounting policies and notes to the financial statements on pages 35 to 74 form an integral part of the financial statements.

Statements of Cash Flows

FOR THE 52 WEEK PERIOD ENDED 31 JULY 2011

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

The accompanying statement of accounting policies and notes to the financial statements on pages 35 to 74 form an integral part of the financial statements.

Reconciliation of Operating Cash Flows

FOR THE 52 WEEK PERIOD ENDED 31 JULY 2011

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

The accompanying statement of accounting policies and notes to the financial statements on pages 35 to 74 form an integral part of the financial statements.

Statements of Changes in Equity

FOR THE 52 WEEK PERIOD ENDED 31 JULY 2011

GROUP	SHARE CAPITAL $000	TREASURY STOCK $000	CASH FLOW HEDGE RESERVE $000	EMPLOYEE SHARE BENEFITS RESERVE $000	RETAINED EARNINGS $000	MINORITY INTEREST $000	TOTAL EQUITY $000
For the 52 week period ended 31 July 2011							
Balance at the beginning of the period	**251,445**	**(8,262)**	**(4,007)**	**3,422**	**60,308**	**340**	**303,246**
Net profit for the period	**–**	**–**	**–**	**–**	**77,829**	**316**	**78,145**
Net change in fair value of cash flow hedges	**–**	**–**	**(20,097)**	**–**	**–**	**–**	**(20,097)**
Total comprehensive income			**(20,097)**	**–**	**77,829**	**316**	**58,048**
Share based payments charged to the income statement	**–**	**–**	**–**	**1,640**	**–**	**–**	**1,640**
Share rights exercised	**–**	**2,110**	**–**	**(2,250)**	**140**	**–**	**–**
Dividends paid	**–**	**–**	**–**	**–**	**(90,246)**	**(331)**	**(90,577)**
Treasury stock dividends received	**–**	**–**	**–**	**–**	**416**	**–**	**416**
Purchase of treasury stock	**–**	**(1,233)**	**–**	**–**	**–**	**–**	**(1,233)**
Balance at the end of the period	**251,445**	**(7,385)**	**(24,104)**	**2,812**	**48,447**	**325**	**271,540**
	(note: 30)	(note: 30)	(note: 31)	(note: 31)	(note: 33)	(note: 32)	
For the 52 week period ended 1 August 2010							
Balance at the beginning of the period	251,445	(14,356)	(20,737)	3,654	100,887	251	321,144
Profit for the period	–	–	–	–	60,185	355	60,540
Net change in fair value of cash flow hedges	–	–	16,730	–	–	–	16,730
Total comprehensive income	–	–	16,730	–	60,185	355	77,270
Share based payments charged to the income statement	–	–	–	2,609	–	–	2,609
Share rights exercised	–	1,751	–	(2,471)	720	–	–
Shares issued to employee share purchase plan	–	4,355	–	(370)	(1,285)	–	2,700
Dividends paid	–	–	–	–	(101,139)	(266)	(101,405)
Treasury stock dividends received	–	–	–	–	940	–	940
Purchase of treasury stock	–	(12)	–	–	–	–	(12)
Balance at the end of the period	251,445	(8,262)	(4,007)	3,422	60,308	340	303,246
	(note: 30)	(note: 30)	(note: 31)	(note: 31)	(note: 33)	(note: 32)	

PARENT	SHARE CAPITAL $000	RETAINED EARNINGS $000	TOTAL EQUITY $000
For the 52 week period ended 31 July 2011			
Balance at the beginning of the period	**251,445**	**10,884**	**262,329**
Total comprehensive income	**–**	**90,244**	**90,244**
Dividends paid	**–**	**(90,246)**	**(90,246)**
Balance at the end of the period	**251,445**	**10,882**	**262,327**
	(note: 30)	(note: 33)	
For the 52 week period ended 1 August 2010			
Balance at the beginning of the period	251,445	10,886	262,331
Total comprehensive income	–	101,137	101,137
Dividends paid	–	(101,139)	(101,139)
Balance at the end of the period	251,445	10,884	262,329
	(note: 30)	(note: 33)	

The accompanying statement of accounting policies and notes to the financial statements on pages 35 to 74 form an integral part of the financial statements.

Notes to and forming part of the Financial Statements

FOR THE 52 WEEK PERIOD ENDED 31 JULY 2011

1. SUMMARY OF ACCOUNTING POLICIES

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

Reporting entity

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

Functional and presentation currency

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

Reporting period

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

Historical cost convention

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

(a) Basis of consolidation

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

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

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

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

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

(b) Associates

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

(c) Statement of cash flows

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

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

1. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

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

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

(e) Property, plant and equipment
Cost
The cost of purchased property, plant and equipment is the value of the consideration given to acquire the assets and the value of other directly attributable costs, which have been incurred in bringing the assets to the location and condition necessary for their intended use.

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

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

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

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

Estimated useful life of property, plant and equipment:

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

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

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

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

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

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

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

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

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

(j) Investments in subsidiaries
Investments are stated at the lower of cost or net realisable value.

1. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

(k) Trade receivables
Trade receivables are recognised initially at fair value. Trade receivables arise from sales made to customers on credit or through the collection of rebates from suppliers not otherwise deducted from suppliers' payable accounts.

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

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

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

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

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

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

(n) Impairment of non-financial assets
Assets that are subject to amortisation or depreciation are reviewed annually for impairment or whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

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

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

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

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

The fair value at grant date of the share right's 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) Cash settled share-based payments
The Group introduced a cash settled share-based compensation plan for holders of 'performance shares' (refer note 15) granted in November 2007.

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

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

1. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

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

(p) Derivatives
The Group is party to the following financial derivatives:

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

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

For the purposes of hedge accounting, hedges are classified as:

- Cash flow hedges when they hedge the exposure to variability in cash flows that is attributable either to a particular risk associated with a recognised asset or liability or to a highly probable forecast transaction; or
- Fair value hedges when they hedge the exposure to changes in fair value of a recognised asset or liability.

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions.

The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

(i) Cash flow hedge
The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity in the cash flow hedge reserve. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

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

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

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

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

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

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

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

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

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

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

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

(s) Borrowings
Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance date.

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

1. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

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

(u) Provisions
Provisions are recognised when:

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

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

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

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

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

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

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

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

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

(aa) Changes to accounting policies that have been adopted for new accounting standards and new interpretations in the preparation and presentation of the financial statements:
There have been no significant changes in accounting policies during the year, however certain comparatives have been restated to conform with the current years presentation.

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

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

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

Capitalisation

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

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

Depreciation

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

Impairment testing

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

(b) Inventories (note 19)

Net realisable value

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

Shrinkage

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

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

(c) Provisions (note 28)

Provisions

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

Annual performance incentive payments

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

Warranty provision

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

(d) Insurance proceeds (note 12, 21)

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

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

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

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

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

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

3. CAPITAL MANAGEMENT

The Group's capital management objectives are to safeguard the Group's ability to continue as a going concern, to provide an appropriate rate of return to shareholders and to optimise the Group's cost of capital.

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

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

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

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

(a) Externally imposed capital requirements

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

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

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

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

4. FINANCIAL RISK MANAGEMENT

Financial risk factors

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

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

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

(a) Liquidity risk

Liquidity risk arises from financial liabilities of the Group and the Group's subsequent ability to meet the obligation to repay these financial liabilities as and when they arise.

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

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

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

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

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

GROUP	NOTE	DEBT FACILITIES 2011	DEBT FACILITIES 2010	LETTERS OF CREDIT 2011	LETTERS OF CREDIT 2010	TOTAL FACILITIES 2011	TOTAL FACILITIES 2010
		$000	$000	$000	$000	$000	$000
6 months or less		65,000	135,000	28,000	20,000	93,000	155,000
6 to 12 months		20,000	75,000	–	8,000	20,000	83,000
1 to 3 years		90,000	20,000	–	–	90,000	20,000
Over 3 years		100,000	100,000	–	–	100,000	100,000
		275,000	330,000	28,000	28,000	303,000	358,000
Facilities utilised	29, 36	150,000	175,000	13,184	15,899	163,184	190,899
Unused facilities available		125,000	155,000	14,816	12,101	139,816	167,101
Percentage utilisation		54.5%	53.0%	47.1%	56.8%	53.9%	53.3%

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(i) Contractual maturities

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

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

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

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

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

(ii) Maturity analysis based on management's expectation

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

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

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

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Market risk

(i) Interest rate risk

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

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

GROUP ASSET/(LIABILITY)	NOTE	CARRYING AMOUNT	+100 BASIS POINTS HIGHER/(LOWER) PROFIT	+100 BASIS POINTS HIGHER/(LOWER) EQUITY	-100 BASIS POINTS HIGHER/(LOWER) PROFIT	-100 BASIS POINTS HIGHER/(LOWER) EQUITY
		$000	$000	$000	$000	$000
At 31 July 2011						
Cash and cash equivalents	18	23,016	166	166	(166)	(166)
Bank borrowings	29	(50,000)	(360)	(360)	360	360
Fixed rate senior bond	29	(99,129)	571	571	(601)	(601)
Derivative financial instruments						
Interest rate swaps – cash flow hedges	22	(2,820)	360	(141)	(360)	(3,499)
Interest rate swaps – fair value hedges	22	354	(571)	(571)	601	601
		(128,579)	166	(335)	(166)	(3,305)
At 1 August 2010						
Cash and cash equivalents	18	101,226	709	709	(709)	(709)
Bank borrowings	29	(75,000)	(525)	(525)	525	525
Fixed rate senior bond	29	(98,642)	452	452	(490)	(490)
Derivative financial instruments						
Interest rate swaps – cash flow hedges	22	(3,210)	490	1,400	(490)	(1,430)
Interest rate swaps – fair value hedges	22	179	(452)	(452)	490	490
		(75,447)	674	1,584	(674)	(1,614)

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

(ii) Foreign exchange risk

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

Management work to a Board approved Treasury Policy to manage foreign exchange risk. The policy parameters for hedging forecasted currency exposures are:

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

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

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

GROUP ASSET/(LIABILITY)	NOTE	CARRYING AMOUNT 2011	CARRYING AMOUNT 2010	NOTIONAL AMOUNT 2011	NOTIONAL AMOUNT 2010
Forward currency contracts – cash flow hedges		$000	$000	$000	$000
Buy US dollars/Sell New Zealand dollars	22	(30,867)	(2,757)	252,382	175,812

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

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

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

GROUP FORWARD CURRENCY CONTRACTS – CASH FLOW HEDGES	AFTER TAX PROFIT HIGHER/(LOWER) 2011	AFTER TAX PROFIT HIGHER/(LOWER) 2010	EQUITY HIGHER/(LOWER) 2011	EQUITY HIGHER/(LOWER) 2010
	$000	$000	$000	$000
10% appreciation in the New Zealand dollar	–	–	(14,162)	(10,862)
10% depreciation in the New Zealand dollar	–	–	17,309	13,276

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

(iii) Price risk

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

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

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

GROUP ASSET/(LIABILITY)	CARRYING AMOUNT 2011	CARRYING AMOUNT 2010	AVERAGE PRICE PER MWH 2011	AVERAGE PRICE PER MWH 2010	NOTIONAL AMOUNT (MWH) 2011	NOTIONAL AMOUNT (MWH) 2010
	$000	$000	$	$		
Electricity pricing contracts – economic hedges	–	(194)	–	82.64	–	14,688

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

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

The parent has no direct exposure to commodity price risk.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Credit risk

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

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

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

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

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

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

(d) Fair values

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

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

The methods used to calculate fair value are as follows:

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

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

(e) Derivatives at fair value through the Income Statement

ELECTRICITY PRICING CONTRACTS – ECONOMIC HEDGES ASSET/(LIABILITY)	NOTE	GROUP 2011 $000	GROUP 2010 $000
Opening balance		(194)	88
Changes in fair value of financial instruments recognised in the Income Statement		194	(282)
Closing balance	22	–	(194)

5. SEGMENT INFORMATION

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

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

(a) Operating segments

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

The Warehouse

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

Warehouse Stationery

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

Other Group operations

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

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

(b) Other segment information

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

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

5. SEGMENT INFORMATION (CONTINUED)

(c) Balance sheet segment information

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

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

6. OTHER INCOME

GROUP	NOTE	2011	2010
		$000	$000
Tenancy rents received		3,075	3,071
Business interruption insurance	12	275	–
Other		3,135	3,913
		6,485	6,984

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

7. EMPLOYEE EXPENSES

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

The parent has no direct employees.

8. LEASE AND OCCUPANCY EXPENSES

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

The parent has no lease or occupancy expenses.

9. DEPRECIATION AND AMORTISATION EXPENSE

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

The parent has no depreciable assets.

10. OTHER OPERATING EXPENSES

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

Fees paid to PricewaterhouseCoopers for other audit services are approved by the Group's Audit Committee and relate to agreed upon additional audit assurance procedures. In 2011 other audit services related to limited assurance services provided on aspects of the Group's annual Sustainability Report. In 2010 other audit services related to issuance of the Group's fixed rate senior bond. For information on the Group's policies regarding audit governance and independence refer to page 83 (Corporate Governance).

11. NET INTEREST EXPENSE

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

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

12. CANTERBURY EARTHQUAKES

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

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

13. INCOME TAX

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

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

The accounting impact of the 2010 Government Budget changes

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

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

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

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

14. KEY MANAGEMENT PERSONNEL

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

GROUP NON-EXECUTIVE DIRECTORS	NOTE	DIRECTORS' FEES 2011 $000	2010 $000
G F Evans (Chairman)		98	82
J R Avery (retired November 2009)		–	28
H J M Callaghan (appointed September 2010 – resigned July 2011)		64	–
R L Challinor		77	79
J H Ogden		76	73
J L Smith		73	72
K R Smith (Deputy Chairman)		143	153
Sir Stephen Tindall		72	72
E K van Arkel (appointed July 2011)		6	–
	7	609	559

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

GROUP	KEY EXECUTIVES 2011 $000	KEY EXECUTIVES 2010 $000	I R MORRICE 2011 $000	I R MORRICE 2010 $000
Base salary	3,425	3,324	1,748	1,537
Annual performance based compensation	308	868	–	316
Cash settled share-based entitlement	–	670	–	438
Equity settled share-based compensation	431	634	247	553
Termination benefits	1,195	–	–	–
	5,359	5,496	1,995	2,844

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

GROUP REMUNERATION STRUCTURE BASED ON 'ON TARGET' PERFORMANCE		KEY EXECUTIVES %	EXECUTIVE DIRECTOR %
Fixed compensation	Base salary	50	46
Performance linked compensation	Annual performance based compensation	25	27
	Share-based compensation	25	27

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

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

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

14. KEY MANAGEMENT PERSONNEL (CONTINUED)

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

GROUP	PERFORMANCE SHARES		AWARD SHARES		TOTAL SHARE RIGHTS	
EXPECTED VESTING DATES	2011	2010	2011	2010	2011	2010
	000	000	000	000	000	000
Key executives						
October 2010	–	121	–	123	–	244
November 2010	–	–	–	73	–	73
October 2011	–	–	168	92	168	92
November 2011	142	196	46	73	188	269
October 2012	198	197	168	92	366	289
October 2013	234	–	109	–	343	–
Outstanding at the end of the year	574	514	491	453	1,065	967
I R Morrice						
October 2010	–	79	–	74	–	153
November 2010	–	–	–	48	–	48
October 2011	–	–	93	52	93	52
November 2011	126	126	48	48	174	174
October 2012	–	111	–	52	–	163
Outstanding at the end of the year	126	316	141	274	267	590

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

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

Details of other key executives

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

Key executives and Directors are also entitled to purchase goods at normal staff discount rates. For further details regarding the nature of compensation provided to key executives refer to page 82 (Corporate Governance).

15. EXECUTIVE LONG TERM INCENTIVE PLAN (LTIP)

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

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

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

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

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

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

(c) Summary of share rights granted under LTIP arrangements

GROUP	NOTE	PERFORMANCE SHARES 2011	PERFORMANCE SHARES 2010	AWARD SHARES 2011	AWARD SHARES 2010	TOTAL SHARE RIGHTS 2011	TOTAL SHARE RIGHTS 2010
		000	000	000	000	000	000
Outstanding at the beginning of the year		1,508	1,155	1,335	1,074	2,843	2,229
Granted during the year		686	608	960	851	1,646	1,459
Vested during the year	30	–	–	(440)	(365)	(440)	(365)
Forfeited during the year		(912)	(255)	(788)	(225)	(1,700)	(480)
Outstanding at the end of the year		1,282	1,508	1,067	1,335	2,349	2,843
Expected vesting dates							
October 2010		–	343	–	365	–	708
November 2010		–	–	–	201	–	201
October 2011		–	–	393	284	393	284
November 2011		448	557	154	201	602	758
October 2012		386	608	301	284	687	892
October 2013		448	–	219	–	667	–
Outstanding at the end of the year		1,282	1,508	1,067	1,335	2,349	2,843

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

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

15. EXECUTIVE LONG TERM INCENTIVE PLAN (CONTINUED)

(d) Fair values

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

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

Performance shares

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

Award shares

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

(e) Cash settled share-based compensation plan

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

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

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16. EARNINGS PER SHARE

(a) Basic earnings per share

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

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

(b) Diluted earnings per share

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

Share rights

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

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

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

17. NET ASSETS PER SHARE

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

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

18. CASH AND CASH EQUIVALENTS

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

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

19. INVENTORIES

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

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

Goods in transit from overseas

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

The parent has no inventories.

20. TRADE AND OTHER PAYABLES

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

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

21. TRADE AND OTHER RECEIVABLES

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

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

(a) Trade receivables

Trade receivables arise from sales made to customers on credit or through the collection of rebates from suppliers not otherwise deducted from suppliers' payable accounts. Trade receivables are non-interest bearing and are generally on 30 to 60 day terms. Due to the short term nature of trade and other receivables, their carrying value is assumed to approximate their fair value. Collateral is not held as security, nor is it the Group's practice to transfer (on-sell) receivables to special purpose entities.

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

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

Trade receivables greater than 60 days are considered to be past their due date. Collectability of trade receivables is reviewed on an ongoing basis at an operating unit level. Individual debts that are known to be 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.

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

Movements in the provision for impairment loss were as follows:

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

21. TRADE AND OTHER RECEIVABLES (CONTINUED)

(b) Employee share purchase plan

GROUP	NOTE	ORDINARY SHARES 2011	2010
		000	000
Opening balance		1,003	5
Shares allocated	30	–	1,003
Shares redeemed		(12)	(2)
Shares forfeited	30	(62)	(3)
Closing balance		929	1,003

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

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

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

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

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

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

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

The parent has no trade or other receivables.

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22. DERIVATIVE FINANCIAL INSTRUMENTS

GROUP ASSET/(LIABILITY)	CURRENCY CONTRACTS	INTEREST RATE SWAPS	ELECTRICITY CONTRACTS	TOTAL DERIVATIVES
As at 31 July 2011	$000	$000	$000	$000
Non-current assets	–	1,138	–	1,138
Current liabilities	(25,024)	(879)	–	(25,903)
Non-current liabilities	(5,843)	(2,725)	–	(8,568)
	(30,867)	(2,466)	–	(33,333)
As at 1 August 2010				
Current assets	167	–	–	167
Non-current assets	–	706	–	706
Current liabilities	(2,924)	(468)	(194)	(3,586)
Non-current liabilities	–	(3,269)	–	(3,269)
	(2,757)	(3,031)	(194)	(5,982)

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

(a) Forward currency contracts – cash flow hedges

The Group purchases inventory directly from overseas suppliers, primarily priced in US dollars. In order to protect against exchange rate movements and to manage the inventory costing process, the Group has entered into forward currency contracts to purchase foreign currencies. These contracts are hedging highly probable forecasted purchases timed to mature when the payments are scheduled to be made. The cash flows are expected to occur during the next 18 months and the gain/loss within cost of sales will be affected over the following year as the inventory is sold.

At balance date the details of the outstanding contracts are:

GROUP FORWARD CURRENCY CONTRACTS – CASH FLOW HEDGES	NOTIONAL AMOUNT 2011	2010	AVERAGE EXCHANGE RATE 2011	2010
Buy US dollars/Sell New Zealand dollars	NZ$000	NZ$000	$	$
Maturity 0 to 6 months	117,451	122,981	0.7387	0.7084
Maturity 7 to 12 months	68,681	52,831	0.7717	0.7026
Maturity 13 to 18 months	66,250	–	0.7698	–

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

(b) Interest rate swaps

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

(i) Interest rate swaps – cash flow hedges

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

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

GROUP INTEREST RATE SWAPS – CASH FLOW HEDGES	NOTIONAL AMOUNT 2011	2010	AVERAGE FIXED RATE 2011	2010
Maturity	$000	$000	%	%
0 to 1 Years	20,000	20,000	4.92	6.60
1 to 2 Years	–	20,000	–	4.92
4 to 5 Years	–	30,000	–	6.70
5 to 6 Years	10,000	–	6.40	–
6 to 7 Years	20,000	–	6.12	–
	50,000	70,000	6.07	6.16

22. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

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

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

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

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

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

(c) Cash flow hedge reserve
Movements in the cash flow hedge reserve are set out below:

GROUP	NOTE	CURRENCY CONTRACTS	INTEREST RATE SWAPS	DEFERRED TAXATION	HEDGE RESERVE
For the 52 week period ended 31 July 2011		$000	$000	$000	$000
Opening balance		(2,757)	(2,933)	1,683	(4,007)
Transferred to inventory		(16,346)	–	4,904	(11,442)
Transferred to interest expense	11	–	1,987	(596)	1,391
Transferred to equity		(11,764)	(1,663)	3,381	(10,046)
Closing balance		(30,867)	(2,609)	9,372	(24,104)
				(note: 24)	(note: 31)
For the 52 week period ended 1 August 2010					
Opening balance		(26,401)	(3,223)	8,887	(20,737)
Transferred to inventory		36,390	–	(10,917)	25,473
Hedge ineffectiveness recognised in the income statement		51	206	(77)	180
Transferred to interest expense	11	–	2,870	(861)	2,009
Transferred to equity		(12,797)	(2,786)	4,651	(10,932)
Closing balance		(2,757)	(2,933)	1,683	(4,007)
				(note: 24)	(note: 31)

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

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

23. CURRENT TAXATION

The movement in income tax receivable is set out below:

ASSET/(LIABILITY)	NOTE	GROUP 2011	GROUP 2010	PARENT 2011	PARENT 2010
		$000	$000	$000	$000
Opening balance		(11,350)	557	1,079	741
Current year income tax payable	13	(33,125)	(35,389)	1	1
Net taxation paid		36,235	22,181	–	–
Supplementary dividend tax credit		1,033	1,078	1,033	1,078
Use of money interest and other adjustments		5	223	(1,079)	(741)
Closing balance		(7,202)	(11,350)	1,034	1,079

24. DEFERRED TAXATION

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

GROUP ASSET/(LIABILITY)	NOTE	OPENING BALANCE	CHARGED TO PROFIT	CHARGED TO EQUITY	CLOSING BALANCE
For the 52 week period ended 31 July 2011		$000	$000	$000	$000
Gross deferred tax assets					
Inventory		5,800	146	–	5,946
Doubtful debts		223	(32)	–	191
Employee benefit provisions		8,834	(46)	–	8,788
Make good provision		780	30	–	810
Sales return provision		746	(16)	–	730
Derivatives – cash flow hedges	22	1,683	–	7,689	9,372
Derivatives – economic hedges		58	(58)	–	–
Other		242	200	–	442
		18,366	224	7,689	26,279
Gross deferred tax liabilities					
Depreciation and amortisation		(23,872)	1,504	–	(22,368)
Other		(91)	12	–	(79)
		(23,963)	1,516	–	(22,447)
Net deferred tax assets/(liabilities)		(5,597)	1,740	7,689	3,832
			(note: 13)		
For the 52 week period ended 1 August 2010					
Gross deferred tax assets					
Inventory		6,472	(672)	–	5,800
Doubtful debts		267	(44)	–	223
Employee benefit provisions		8,533	301	–	8,834
Make good provision		811	(31)	–	780
Sales return provision		719	27	–	746
Derivatives – cash flow hedges	22	8,887	–	(7,204)	1,683
Derivatives – economic hedges		–	58	–	58
Other		311	(69)	–	242
		26,000	(430)	(7,204)	18,366
Gross deferred tax liabilities					
Depreciation and amortisation		(1,042)	(22,830)	–	(23,872)
Derivatives – economic hedges		(26)	26	–	–
Other		(88)	(3)	–	(91)
		(1,156)	(22,807)	–	(23,963)
Net deferred tax assets/(liabilities)		24,844	(23,237)	(7,204)	(5,597)
			(note: 13)		

The parent has no deferred income tax assets/liabilities.

25. PROPERTY, PLANT AND EQUIPMENT

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

(a) Available for sale land and buildings

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

(b) Movement in property, plant and equipment

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

GROUP	NOTE	FREEHOLD LAND	FREEHOLD BUILDINGS	STORE FITTINGS AND EQUIPMENT	COMPUTER HARDWARE	VEHICLES	WORK IN PROGRESS	TOTAL
For the 52 week period ended 31 July 2011		$000	$000	$000	$000	$000	$000	$000
Opening carrying amount		76,331	103,687	69,230	15,736	1,118	6,244	272,346
Additions	5	12,045	11,797	30,754	4,129	291	2,948	61,964
Disposals		(1,342)	(2,508)	(773)	(133)	(56)	–	(4,812)
Depreciation	5, 9	–	(2,618)	(22,250)	(6,485)	(366)	–	(31,719)
Earthquake impairment		–	–	(113)	–	–	–	(113)
Closing carrying amount		87,034	110,358	76,848	13,247	987	9,192	297,666
At 31 July 2011								
Cost		87,034	134,930	312,990	82,292	2,511	9,192	628,949
Accumulated depreciation and impairment		–	(24,572)	(236,142)	(69,045)	(1,524)	–	(331,283)
Net carrying amount		87,034	110,358	76,848	13,247	987	9,192	297,666
For the 52 week period ended 1 August 2010								
Opening carrying amount		53,720	104,683	77,812	16,322	1,428	3,523	257,488
Additions	5	20,111	4,342	16,202	5,995	163	2,721	49,534
Reclassification		2,500	(2,500)	–	–	–	–	–
Disposals		–	–	(955)	(564)	(77)	–	(1,596)
Depreciation	5, 9	–	(2,838)	(23,829)	(6,017)	(396)	–	(33,080)
Closing carrying amount		76,331	103,687	69,230	15,736	1,118	6,244	272,346
At 1 August 2010								
Cost		76,331	125,939	288,625	82,680	2,474	6,244	582,293
Accumulated depreciation		–	(22,252)	(219,395)	(66,944)	(1,356)	–	(309,947)
Net carrying amount		76,331	103,687	69,230	15,736	1,118	6,244	272,346
At 2 August 2009								
Cost		53,720	124,240	277,594	78,492	2,748	3,523	540,317
Accumulated depreciation		–	(19,557)	(199,782)	(62,170)	(1,320)	–	(282,829)
Net carrying amount		53,720	104,683	77,812	16,322	1,428	3,523	257,488

25. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

(c) Property valuations

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

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

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

(d) Property disposals

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

(e) Impairment review

Management annually review the carrying amounts of property, plant and equipment for impairment. For the purposes of this review assets are grouped at the lowest level for which there are separately identifiable cash flows (cash generating units), which in most instances is a store. In assessing whether an asset is impaired, reference is made to individual store profitability and any other known events or circumstances that may indicate that the carrying amount of the asset may not be recoverable. The Group's impairment review did not identify any asset impairment (2010: Nil) except for those assets damaged in the Canterbury earthquakes (refer note 12).

The parent has no property, plant and equipment.

26. COMPUTER SOFTWARE

Reconciliation of the carrying amounts of computer software at the beginning and end of the year are set about below:

GROUP	NOTE	COMPUTER SOFTWARE $000	WORK IN PROGRESS $000	TOTAL $000
For the 52 week period ended 31 July 2011				
Opening carrying amount		20,733	307	21,040
Additions	5	5,932	(307)	5,625
Disposals		(180)	–	(180)
Amortisation	5, 9	(8,053)	–	(8,053)
Closing carrying amount		18,432	–	18,432
At 31 July 2011				
Cost		72,882	–	72,882
Accumulated amortisation		(54,450)	–	(54,450)
Net carrying amount		18,432	–	18,432
For the 52 week period ended 1 August 2010				
Opening carrying amount		23,095	97	23,192
Additions	5	5,925	210	6,135
Disposals		(430)	–	(430)
Amortisation	5, 9	(7,857)	–	(7,857)
Closing carrying amount		20,733	307	21,040
At 1 August 2010				
Cost		67,411	307	67,718
Accumulated amortisation		(46,678)	–	(46,678)
Net carrying amount		20,733	307	21,040
At 2 August 2009				
Cost		62,700	97	62,797
Accumulated amortisation		(39,605)	–	(39,605)
Net carrying amount		23,095	97	23,192

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

The parent has no computer software.

27. INVESTMENTS

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

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

(a) Investment details

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

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

(b) Summarised financial information

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

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

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

A list of Group companies are detailed in note 39.

28. PROVISIONS

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

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

GROUP	MAKE GOOD 2011 $000	MAKE GOOD 2010 $000	SALES RETURN 2011 $000	SALES RETURN 2010 $000	WARRANTY 2011 $000	WARRANTY 2010 $000
Opening balance	2,730	2,703	2,488	2,396	7,414	7,414
Arising during the year	897	683	2,607	2,488	–	–
Net settlements	(735)	(656)	(2,488)	(2,396)	(59)	–
Closing balance	2,892	2,730	2,607	2,488	7,355	7,414

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

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

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

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

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

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

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

28. PROVISIONS (CONTINUED)

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

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

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

The parent has no provisions.

29. BORROWINGS

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

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

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

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

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

(c) Interest rate and liquidity risk
Details regarding interest rate and liquidity risk is disclosed in note 4.

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

30. CONTRIBUTED EQUITY

	GROUP 2011	GROUP 2010	PARENT 2011	PARENT 2010
	$000	$000	$000	$000
Share capital	251,445	251,445	251,445	251,445
Treasury stock	(7,385)	(8,262)	–	–
	244,060	243,183	251,445	251,445

(a) Share capital

GROUP AND PARENT	SHARE CAPITAL 2011	SHARE CAPITAL 2010	ORDINARY SHARES 2011	ORDINARY SHARES 2010
	$000	$000	000	000
Opening balance	251,445	251,445	311,196	311,196
Closing balance	251,445	251,445	311,196	311,196

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

(b) Treasury stock

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

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

31. RESERVES

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

(a) Cash flow hedge reserve

This reserve records the portion of the gain or loss on a hedging derivative in a cash flow hedge that is determined to be an effective hedge. The cumulative deferred gain or loss on the hedge is recognised in the income statement when the hedged transaction impacts the income statement, or depending on the nature of the hedge, is included in a non-financial hedged item when the hedged event occurs.

(b) Share based payments reserve

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

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

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

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

The parent has no reserves.

32. MINORITY INTEREST

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

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

The parent has no minority interests.

33. RETAINED EARNINGS

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

34. DIVIDENDS

GROUP AND PARENT	NOTE	DIVIDENDS PAID 2011 $000	DIVIDENDS PAID 2010 $000	CENTS PER SHARE 2011	CENTS PER SHARE 2010
Prior year final dividend		26,451	17,116	8.5	5.5
Interim dividend		48,235	48,235	15.5	15.5
		74,686	65,351	24.0	21.0
Special interim dividend	3	–	4,669	–	1.5
Special final dividend	3	15,560	31,119	5.0	10.0
Total dividends paid	33	90,246	101,139	29.0	32.5

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

Dividend policy

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

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

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

GROUP AND PARENT	NOTE	DIVIDENDS PAID AND DECLARED 2011 $000	DIVIDENDS PAID AND DECLARED 2010 $000	CENTS PER SHARE 2011	CENTS PER SHARE 2010
Interim dividend		48,235	48,235	15.5	15.5
Final dividend (declared after balance date)		20,228	26,451	6.5	8.5
		68,463	74,686	22.0	24.0
Special interim dividend		–	4,669	–	1.5
Special final dividend (declared after balance date)		–	15,560	–	5.0
Total dividends paid and declared		68,463	94,915	22.0	30.5
Adjusted net profit	38	76,027	83,418		
Payout ratio (%) – excluding special dividend		90.1%	89.5%		

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

35. IMPUTATION CREDIT ACCOUNT

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

IMPUTATION CREDIT ACCOUNT	GROUP 2011 $000	GROUP 2010 $000	PARENT 2011 $000	PARENT 2010 $000
Opening balance	58,554	82,845	18,388	20,648
Taxation payments made	36,500	21,972	–	–
Credits attached to dividends paid	(38,677)	(48,736)	(38,677)	(48,736)
Credits attached to dividends received	948	2,211	39,710	46,476
Other adjustments	373	262	617	–
Closing balance	57,698	58,554	20,038	18,388

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

36. CONTINGENT LIABILITIES

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

Letter of credit

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

Bank guarantees

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

The Warehouse Australia

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

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

Other contingent liabilities

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

The parent had no contingent liabilities.

37. COMMITMENTS

(a) Capital commitments

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

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

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

(b) Operating leases

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

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

The parent has no capital or lease commitments.

38. ADJUSTED NET PROFIT RECONCILIATION

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

39. RELATED PARTIES

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

(a) Shareholdings

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

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

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

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

(b) Share deed

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

(c) The Tindall Foundation

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

(d) Share transactions by Directors

Share transactions undertaken by the Directors during the year are required to be disclosed in respect of section 148(2) of the Companies Act 1993. Details of these transactions can be found as part of the statutory disclosures in the Annual Report.

(e) Related party Directorships

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

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

39. RELATED PARTIES (CONTINUED)

(f) Parent

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

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

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

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

Material transactions between the Parent and its subsidiaries were:

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

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

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

(g) Subsidiaries

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

	PRINCIPAL ACTIVITY	EQUITY HOLDING	
		2011	2010
Guaranteeing Subsidiaries		%	%
New Zealand subsidiaries			
The Warehouse Limited	Retail	100	100
Boye Developments Limited	Investment	100	100
Eldamos Investments Limited	Property owner	100	100
The Warehouse Nominees Limited	Investment	100	100
Waikato Valley Chocolates Limited [1]	Chocolate factory	50	50
Warehouse Stationery Limited	Retail	100	100
New Zealand employee share plan trustees			
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
New Zealand non-trading subsidiaries			
The Warehouse Card Limited		100	100
The Warehouse Cellars Limited		100	100
Eldamos Nominees Limited[1]		100	100
Non-trading Australian subsidiaries			
TWGA Pty Limited[1]		100	100
TWL Australia Pty Limited[1]		100	100
Non-Guaranteeing Subsidiaries			
New Zealand subsidiaries			
TWNL Projects Limited	Store development	50	50
TWP No.1 Limited	Retail	49	49
TWP No.2 Limited	Retail	49	49
New Zealand non-trading subsidiaries and joint ventures			
Farran Nine Limited		50	50
Lincoln West Limited		50	50
The Warehouse Investments 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.*

Auditors' Report

THE WAREHOUSE GROUP LIMITED

Independent Auditors' Report

To the shareholders of The Warehouse Group Limited

Report on the Financial Statements

We have audited the financial statements of The Warehouse Group Limited on pages 29 to 74 which comprise the balance sheets as at 31 July 2011, the income statements, statements of comprehensive income and statements of changes in equity and statements of cash flows for the 52 week period then ended, and the notes to the financial statements that include a summary of significant accounting policies and other explanatory information for both the Company and the Group. The Group comprises the Company and the entities it controlled at 31 July 2011 or from time to time during the financial year.

Directors' Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider the internal controls relevant to the Company and the Group's preparation of financial statements that give a true and fair view of the matters to which they relate, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company and the Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the financial statements.

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

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

Opinion

In our opinion, the financial statements on pages 29 to 74:

(i) comply with generally accepted accounting practice in New Zealand;

(ii) comply with International Financial Reporting Standards; and

(iii) give a true and fair view of the financial position of the Company and the Group as at 31 July 2011, and their financial performance and cash flows for the 52 week period ended on that date.

Report on Other Legal and Regulatory Requirements

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

(i) we have obtained all the information and explanations that we have required; and

(i) in our opinion, proper accounting records have been kept by the Company and the Group as far as appears from an examination of those records.

Restriction on Distribution or Use

This report is made solely to the Company's shareholders, as a body, in accordance with Section 205(1) of the Companies Act 1993. Our audit work has been undertaken so that we might state to the Company's shareholders those matters which we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholders, as a body, for our audit work, for this report or for the opinions we have formed.

PricewaterhouseCoopers

Chartered Accountants, Auckland

15 September 2011

Annual 5 Year Summary

	(52 WEEKS) 2011 $000	(52 WEEKS) 2010 $000	(53 WEEKS) 2009 $000	(52 WEEKS) 2008 $000	(52 WEEKS) 2007 $000
SUMMARY INCOME STATEMENTS					
The Warehouse	**1,462,912**	1,476,219	1,531,114	1,533,625	1,546,238
Warehouse Stationery	**201,453**	193,599	187,167	199,471	213,538
Other Group operations	**8,320**	8,107	8,419	7,611	8,913
Inter-segment eliminations	**(4,908)**	(5,230)	(5,945)	(5,677)	(7,303)
Revenue	**1,667,777**	1,672,695	1,720,755	1,735,030	1,761,386
The Warehouse	**98,777**	112,664	120,238	112,744	136,609
Warehouse Stationery	**10,103**	8,044	1,596	5,070	9,394
Other Group operations	**5,256**	3,341	3,118	3,326	3,276
Operating profit	**114,136**	124,049	124,952	121,140	149,279
Equity earnings of associate	**3,575**	2,808	3,220	3,037	3,162
Gain/(loss) on disposal of property	**1,470**	–	315	1,176	(542)
Release of warranty provisions	**–**	–	–	7,208	5,939
Changes in fair value of financial instruments	**194**	(282)	(1,698)	2,126	167
Gain/(loss) on disposal of business operations	**–**	–	(10,661)	–	17,432
Earnings before interest and tax	**119,375**	126,575	116,128	134,687	175,437
Net interest expense	**(9,845)**	(7,409)	(6,837)	(6,394)	(6,467)
Profit before tax	**109,530**	119,166	109,291	128,293	168,970
Income tax expense	**(31,385)**	(58,626)	(32,295)	(37,350)	(53,834)
Profit after tax	**78,145**	60,540	76,996	90,943	115,136
Minority interests	**(316)**	(355)	(214)	(174)	(302)
Profit attributable to shareholders	**77,829**	60,185	76,782	90,769	114,834
ADJUSTED PROFIT RECONCILIATION					
Unusual items (detailed above)	**(1,664)**	282	12,044	(10,510)	(22,996)
Income tax relating to unusual items	**(138)**	22,951	(3,613)	638	5,629
Adjusted net profit	**76,027**	83,418	85,213	80,897	97,467
THE WAREHOUSE					
Operating margin (%)	**6.8**	7.6	7.9	7.4	8.8
Same store sales growth (%)	**(0.9)**	(2.2)	(0.4)	(1.2)	2.0
Number of stores	**88**	87	86	85	85
Store footprint (square metres)	**476,115**	470,156	467,596	465,530	455,361
WAREHOUSE STATIONERY					
Operating margin (%)	**5.0**	4.2	0.9	2.5	4.4
Same store sales growth (%)	**4.6**	7.8	(7.1)	(4.5)	2.2
Number of stores	**51**	47	46	43	43
Store footprint (square metres)	**58,307**	56,101	56,388	56,532	58,165
DIVIDEND DISTRIBUTIONS					
Interim (cents per share)	**15.5**	15.5	15.5	15.5	12.0
Final (cents per share)	**6.5**	8.5	5.5	5.5	5.5
Ordinary dividends declared (cents per share)	**22.0**	24.0	21.0	21.0	17.5
Special dividends declared (cents per share)	**–**	6.5	10.0	–	35.0
Ordinary dividend payout ratio (%)	**90.1**	89.5	76.7	80.8	55.8
Basic earnings per share (cents)	**25.1**	19.5	24.9	29.4	37.5
Basic adjusted earnings per share (cents)	**24.6**	27.0	27.6	26.2	31.8

Annual 5 Year Summary – continued

	2011 $000	2010 $000	2009 $000	2008 $000	2007 $000
SUMMARY BALANCE SHEETS					
Inventories	**262,663**	254,606	257,943	275,581	254,770
Trade and other receivables	**25,791**	19,021	24,466	26,599	25,530
Creditors and provisions	**(177,781)**	(174,341)	(197,519)	(163,281)	(160,632)
Working capital	**110,673**	99,286	84,890	138,899	119,668
Fixed assets	**316,098**	293,385	280,680	294,507	305,154
Investments	**7,585**	5,921	7,376	7,191	8,908
Funds employed	**434,356**	398,592	372,946	440,597	433,730
Taxation (liabilities)/assets	**(3,370)**	(16,947)	25,401	26,550	23,529
Derivative financial instruments	**(33,333)**	(5,982)	(29,955)	7,117	(14,080)
Capital employed	**397,653**	375,663	368,392	474,264	443,179
Net debt	**126,113**	72,417	47,248	139,608	42,996
Equity attributable to shareholders	**271,215**	302,906	320,893	334,465	399,888
Minority interest	**325**	340	251	191	295
Sources of funds	**397,653**	375,663	368,392	474,264	443,179
SUMMARY CASH FLOW					
Operating profit	**114,136**	124,049	124,952	121,140	149,279
Depreciation and amortisation	**39,772**	40,937	41,840	39,634	35,409
Trading EBITDA	**153,908**	164,986	166,792	160,774	184,688
Change in trade working capital	**(13,474)**	(10,864)	50,329	(11,658)	(32,299)
Income tax paid	**(36,235)**	(22,181)	(19,108)	(40,427)	(17,537)
Net interest paid	**(9,937)**	(7,023)	(7,743)	(9,273)	(8,046)
Share based payment expense	**1,640**	2,609	2,600	2,720	2,219
Loss on sale of plant and equipment	**1,008**	1,624	1,589	422	537
Operating cash flow	**96,910**	129,151	194,459	102,558	129,562
Capital expenditure	**(65,896)**	(57,280)	(37,103)	(45,694)	(60,505)
Proceeds from divestments	**5,567**	401	1,489	17,179	40,460
Dividend from associate	**1,911**	4,263	3,035	4,754	–
Dividends paid	**(91,194)**	(101,543)	(65,580)	(176,327)	(55,368)
Employee share schemes	**(449)**	82	(3,940)	963	18,277
Other items	**(545)**	(243)	–	(45)	–
Net cash flow	**(53,696)**	(25,169)	92,360	(96,612)	72,426
Opening debt	**(72,417)**	(47,248)	(139,608)	(42,996)	(115,422)
Closing debt	**(126,113)**	(72,417)	(47,248)	(139,608)	(42,996)
FINANCIAL RATIOS					
Operating margin (%)	**6.8**	7.4	7.3	7.0	8.5
Trading EBITDA margin (%)	**9.2**	9.9	9.7	9.3	10.5
Interest cover (times)	**12.1**	17.1	17.0	21.1	27.1
Fixed charge cover (times)	**3.1**	3.4	3.2	3.6	4.3
Net debt/EBITDA (times)	**0.8**	0.4	0.3	0.8	0.2
Net debt/net debt plus equity (%)	**31.7**	19.3	12.8	29.4	9.7
Return on funds employed (%)	**28.3**	32.9	31.5	28.4	35.4
Capex/depreciation (times)	**1.7**	1.4	0.9	1.2	1.7
Cash conversion ratio (%)	**85.3**	107.3	155.4	89.0	97.5

Corporate Governance

At The Warehouse, 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 context and focusing on issues critical for its successful execution.

This governance statement outlines the company's main corporate governance practices as at 15 September 2011. 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 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 31 July 2011. The company complies with the majority of ASX Corporate Governance Council (ASXCGC) Corporate Governance Principles and Recommendations currently in operation, and continues to make collective disclosure of the key executives' remuneration.

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

The Warehouse'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 Warehouse's integrity could be compromised.

The Codes have been adopted by 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 the confidential freephone line.

Trading in The Warehouse's Securities

The Warehouse 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 the trade in The Warehouse's ordinary shares or any other listed or unlisted securities or derivatives (together, Restricted Securities) in New Zealand and/or Australia. The policy was updated in December 2010 to ensure compliance with additional requirements introduced by the ASX.

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's shares and buying or selling while in possession of unpublished, price-sensitive information are strictly prohibited. The company monitors trading by 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

The Board has adopted the definition of independence set out in the ASXCGC Corporate Governance Principles and Recommendations. 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 8 to 9.

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 ongoing dialogue with the external auditors;
- risk management – approving the company's risk management 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 ASX and ensuring that the market and shareholders are continually informed of material developments.

Delegation

The Board is responsible for guiding the corporate strategy and directions of The Warehouse and has overall responsibility for decision-making. The Board delegates to the CEO responsibility for implementing the agreed strategy and for managing the 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 Warehouse 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 Remuneration, Talent and Nomination 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 Remuneration, Talent and Nomination 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 the 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 is conducted regularly.

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 Warehouse's 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;
- Remuneration, Talent and Nomination 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 the 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)

Robert Challinor

Graham Evans

Keith Smith

Ted van Arkel

James Ogden, Robert Challinor 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 will 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's financial statements and disclosures are complete and accurate.

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

Remuneration, Talent and Nomination Committee
Remuneration, Talent and Nomination Committee Membership is restricted to non-executive Directors and the majority on the committee must be independent. The Chairman of the committee is an independent Director.

The members of the Remuneration, Talent and Nomination Committee are:

Janine Smith (Chairman)

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.

Corporate Governance Committee
Membership of the committee is restricted to independent Directors.

The members of the Corporate Governance Committee are:

Janine Smith (Chairman)

Robert Challinor

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 of 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 ASX and 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.

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 main Board formally met nine times during the year. In addition, Directors met throughout the year on matters of strategy, planning, committee business, and to attend to 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 31 July 2011.

	BOARD	AUDIT	REMUNERATION, TALENT AND NOMINATION	CORPORATE GOVERNANCE	DISCLOSURE COMMITTEE
Number of meetings	9	4	6	1	2
Mark Callaghan[1]	7		2		
Robert Challinor	9	4		1	2
Graham Evans	9	4	6	1	
Ian Morrice[2]	7				1
James Ogden	9	3			1
Janine Smith	9		6	1	
Keith Smith	9	4	6		2
Sir Stephen Tindall	8		5		1

[1] Mark Callaghan appointed a Director 10 September 2010 and Remuneration, Talent and Nomination Committee member 1 March 2011
[2] Ian Morrice resigned as a Director 2 May 2011
Ted van Arkel appointed a Director 1 July 2011: no formal meetings held in July 2011

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 audits.

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 31 July 2011, 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 and ASX 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 receive the rewards they deserve is the responsibility of the Remuneration, Talent and Nomination 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 Human Resources Director, 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 $650,000 which was approved by the shareholders at the 24 November 2006 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 share price targets are met. Details of the plan, and the share price targets, are contained in note 15 to the Financial Statements.

Senior executives' objectives are set annually and reviewed informally on a monthly basis, with formal reviews in March and August each year. Objectives are based on a balanced scorecard of financial, people, customer and process/operations. The CEO's objectives are set with the Chairman and Remuneration, Talent and Nomination Committee 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.

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 Warehouse'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 Warehouse's risk management strategy. The Board delegates day-to-day management of risk to the CEO who may further delegate such responsibilities to brand chief executive officers 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 2011 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
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 Ernst & Young on internal audit findings.

The Board of Directors is ultimately responsible for the risk management of the company. The Business Continuity Management (BCM) Group Policy spans the four phases of crisis risk management comprising risk treatment (i.e. mitigation) together with crisis preparedness, response and recovery. Key aspects of the BCM Group Policy are audited and aspects of the policy were successfully implemented following the Canterbury earthquakes. A Strategic Risk Assessment (SRA) review has identified significant potential risk to shareholder value and appropriate mitigations. A full review of the SRA was undertaken in 2011.

Insurance
The company maintains insurance coverage with reputable insurers for relevant insurable risks and recently renewed its insurance policies on the same terms for all risks other than earthquake related losses for which the deductibles increased in line with the insurance market's response to global natural disasters, including the Canterbury earthquakes. The Warehouse retains a $50,000 insurance deductible for any single event loss arising from non-earthquake related damage or business interruption to stores, distribution centres or support offices.

The Warehouse Limited and Warehouse Stationery Limited are accredited employers under the ACC Partnership Programme for workers' compensation insurance. 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.

The Warehouse's partnership programme continues to have tertiary accreditation status, the highest level available. This status clearly recognises our commitment to workplace safety.

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 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 2011 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 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 Ernst & Young. 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 annual 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, 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 31 July 2011, 306 store audits were conducted by the company's internal auditor (2010: 296 audits). Internal business processes are audited by Ernst & Young also.

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 and ASX;
- 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 Warehouse 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 is listed on the FTSE4Good Index which identifies companies that meet globally recognised corporate responsibility standards.

Diversity
The Warehouse 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 its 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.

During the year The Warehouse Equal Employment Opportunity Policy was reviewed in line with recent guidelines in respect of diversity issued by the ASX. The Board has adopted a Diversity Policy for the Group. Executive teams will assist the Board in establishing measurable objectives for achieving diversity. The Board will assess annually both the measurable objectives and progress towards achieving them and will ensure that the appropriate disclosures are made in the Annual Report, in addition to the diversity disclosures which been included for many years in The Warehouse Community and Environment Report.

The Warehouse's commitment to Communities and Environment is further demonstrated on page 20.

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:

Robert Challinor

Director, CDL Investments New Zealand Limited
Director, Challinor and Associates Limited
JV Committee Member, Copthorne Bay of Islands Resort

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, Upstart Capital Limited
Director, Vehicle Testing Group Limited
Council Member, Victoria University of Wellington
Independent Member, AMP Capital Property Portfolio Fund (Governance Committee)
Chair, Audit Committee of the Ministry of Social Development
Chair, Value for Money Advisory Board of the Ministry of Social Development
Member, Audit and Risk Committee of the Ministry of Foreign Affairs and Trade
Member, Finance and Risk Committee of Crown Forestry Rental Trust
Member, Nominating Committee for the Guardians of New Zealand Superannuation

Janine Smith

Chairman, McLarens Young (New Zealand) Limited and associated companies
Chairman, AsureQuality Limited
Director, Steel & Tube Holdings Limited
Principal, The Boardroom Practice Limited
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
Chairman, Tourism Holdings 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, PGG Wrightson Limited
Trustee, Cornwall Park Trust Board

Sir Stephen Tindall

Chairman, 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
Director, Nurture Nature Limited
Director, Sustainable New Zealand Limited
Member, New Zealand Institute
Member, New Zealand Business Council for Sustainable Development
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, Nestlé NZ Limited
Director, Van Arkel & Co Limited

* Appointed 1 July 2011

Mark Callaghan†

Director, Callaghan & Associates

† Resigned 31 July 2011

Robert Tindall (Alternate Director)‡

Trustee, The Tindall Foundation

‡ Appointed 1 July 2011

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.

Directors' Security Participation

Directors' Shareholdings as at 31 July 2011
At 31 July 2011 the following Directors, or entities related to them, held interests in the company shares:

	BENEFICIAL INTEREST 2011	BENEFICIAL INTEREST 2010	NON-BENEFICIAL INTEREST 2011	NON-BENEFICIAL INTEREST 2010	RELATED PARTY 2011	RELATED PARTY 2010
R L Challinor	2,394	2,394	-	–	–	–
G F Evans	11,202	11,202	890,730	1,030,875	–	–
J H Ogden[1]	11,400	–	–	–	18,083	–
J L Smith	10,000	–	–	–		–
K R Smith	12,000	12,000	7,930,405	8,082,677	32,800	32,800
R J Tindall[2]	4,800	–	6,489,844	–	84,738,511	–
Sir Stephen Tindall	84,058,283	84,058,283	7,165,272	7,165,272	9,600	9,600
E K van Arkel[3]	240	–	–	–	750	–

[1] *Appointed Director 4 August 2009*
[2] *Appointed alternate Director 1 July 2011*
[3] *Appointed Director 1 July 2011*

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 890,730 (August 2010: 1,030,875 shares) as trustees of The Warehouse Management Trustee Company No.2 Limited.
- Sir Stephen Tindall and Robert Tindall hold an interest in 84,058,283 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
J L Smith	5 November 2010	10,000	on-market purchase of shares at $3.87 per share
I R Morrice[1]	29 October 2010 19 November 2010	57,098 47,586	allotment of shares pursuant to executive share scheme
I R Morrice[1] and K R Smith as trustees of The Warehouse Management Trustee Company Limited	various dates	(12,127)	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	(429,774)	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	various dates	300,000	on-market purchase of shares for the executive share scheme at an average price of $3.46 per share
J H Ogden	September 2010	10,677	on-market purchase of shares by related party at an average price of $3.75
	March and April 2011	7,406	on-market purchase of shares by related party at an average price of $3.42

[1] *Resigned as a Director 2 May 2011*

Directors' bondholdings as at 31 July 2011
R L Challinor holds a $50,000 (2010: $50,000) face value interest in the company's bonds.

Remuneration of Directors

On 24 November 2006 the shareholders approved the Directors' fee pool limit of $650,000 per annum.

The fees paid to non-executive Directors for services in their capacity as Directors during the year ended 31 July 2011 was as follows:

	2011 $	2010 $
J R Avery – *retired 26 November 2009*	–	28,000
HJM Callaghan – *appointed 10 September 2010, resigned 31 July 2011*	64,000	–
R L Challinor	77,000	79,000
G F Evans (Chairman)	98,000	82,000
J H Ogden	76,000	73,000
J L Smith	73,000	72,000
K R Smith (Deputy Chairman)	143,000	153,000
Sir Stephen Tindall	72,000	72,000
E K van Arkel – *appointed 1 July 2011*	6,000	–
Total	609,000	559,000

I R Morrice received remuneration in his capacity as an executive Director and Chief Executive Officer of the Group during the period under review. Further details of these transactions are given in note 14 to the Financial Statements.

Subsidiary Company Directors

The following people held office as Directors of subsidiary companies at 31 July 2011. Those who retired during the year are indicated with an (R).

Company	Directors
Boye Developments Limited	L Bunt, I Morrice
Eldamos Investments Limited	L Bunt, P Judd, I Morrice, M Otten (R)
Eldamos Nominees Limited	L Bunt, P Judd, I Morrice, M Otten (R)
The Warehouse Card Limited	L Bunt, I Morrice
The Warehouse Cellars Limited	R Lewis (R), P Judd, M Otten (R)
The Warehouse Investments Limited	L Bunt, I Morrice
The Warehouse Limited	L Bunt, I Morrice (R), P Judd, M Otten (R), M Powell, K Smith
The Warehouse Nominees Limited	L Bunt, I Morrice
TWGA Pty Ltd	L Bunt, I McGill, B Moors, K Smith, Sir Stephen Tindall
TWL Australia Pty Limited	L Bunt, I McGill, B Moors, K Smith, Sir Stephen Tindall
TWL Products Limited	L Bunt, I Morrice
TWP No.3 Limited	R Lewis (R), P Judd, M Otten (R), N Tuck,
Waikato Valley Chocolates Limited	N Craig, P Judd, M Otten (R), M Razey, N Tuck, H Vetsch
Warehouse Stationery Limited	L Bunt, P Judd, I Morrice (R), M Powell

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 EXCLUDING SHARE-BASED REMUNERATION	NUMBER OF TEAM MEMBERS INCLUDING SHARE-BASED REMUNERATION	REMUNERATION ($000)	NUMBER OF TEAM MEMBERS EXCLUDING SHARE-BASED REMUNERATION	NUMBER OF TEAM MEMBERS INCLUDING SHARE-BASED REMUNERATION
100 – 110	56	56	370 – 380	1	1
110 – 120	38	38	380 – 390	1	1
120 – 130	11	11	390 – 400	1	1
130 – 140	21	20	400 – 410	1	1
140 – 150	12	12	410 – 420	–	1
150 – 160	11	11	420 – 430	–	1
160 – 170	10	11	440 – 450	2	–
170 – 180	14	14	450 – 460	–	1
180 – 190	1	–	460 – 470	–	1
190 – 200	2	2	470 – 480	1	–
200 – 210	10	8	480 – 490	1	–
210 – 220	3	4	490 – 500	–	1
220 – 230	4	4	530 – 540	1	1
230 – 240	1	2	600 – 610	–	1
240 – 250	2	3	820 – 830	1	–
250 – 260	2	1	860 – 870	–	1
260 – 270	3	2	900 – 910	1	–
270 – 280	1	–	980 – 990	1	–
280 – 290	1	2	990 – 1000	–	1
290 – 300	3	1	1,120 – 1,130	–	1
300 – 310	1	1	1,350 – 1,360	1	–
310 – 320	4	2	1,360 – 1,370	1	–
320 – 330	1	4	1,450 – 1,460	–	1
330 – 340	1	1	1,490 – 1,500	–	1
340 – 350	1	2			

Substantial Security Holders

According to notices given to the company under the Securities Markets Act 1988, as at 9 September 2011, 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	30,894,087	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 9 September 2011

	NUMBER OF ORDINARY SHARES	PERCENTAGE OF ORDINARY SHARES
Sir Stephen Tindall	83,058,283	26.69%
The Tindall Foundation	66,323,220	21.31%
General Distributors Limited	30,548,887	9.82%
Cash Wholesalers Limited	10,298,029	3.31%
Foodstuffs (Auckland) Nominees Limited	10,298,029	3.31%
Wardell Bros & Coy Limited	10,298,029	3.31%
National Nominees New Zealand Limited – NZCSD A/c[1]	4,792,955	1.54%
Citicorp Nominees Pty Ltd	4,104,189	1.32%
Sir Stephen Tindall & K R Smith & J R Avery (as trustees)	3,389,844	1.09%
R G Tindall & G M Tindall & Sir Stephen Tindall (as trustees)	3,100,000	1.00%
Accident Compensation Corporation – NZCSD A/c[1]	2,867,722	0.92%
HSBC Nominees (New Zealand) Limited – NZCSD A/c[1]	2,571,383	0.83%
Custodial Services Limited	2,394,152	0.77%
J B Were (NZ) Nominees Limited	2,325,000	0.75%
Citibank Nominees (New Zealand) Limited – NZCSD A/c[1]	2,297,371	0.74%
AMP Investments Strategic Equity Growth Fund – NZCSD A/c[1]	1,957,044	0.63%
Premier Nominees Limited – NZCSD A/c[1]	1,863,812	0.60%
J B Were (NZ) Nominees Limited	1,755,000	0.56%
FNZ Custodians Limited	1,660,946	0.53%
J B Were (NZ) Nominees Limited	1,610,575	0.52%
	247,514,470	79.55%

[1] *New Zealand Central Securities Depository Limited (NZCSD) is a depository system which allows electronic trading of securities to members. As at 9 September 2011, total holdings in NZCSD were 20,300,954 or 6.25% of shares on issue.*

Distribution of Shareholders and Holdings as at 9 September 2011

SIZE OF SHAREHOLDING	NUMBER OF SHAREHOLDERS	PERCENTAGE	NUMBER OF SHARES	PERCENTAGE
1 – 1,000	4,840	42.62%	2,651,940	0.85%
1,001 – 5,000	4,826	42.50%	12,275,349	3.94%
5,001 – 10,000	943	8.31%	7,245,312	2.33%
10,001 – 100,000	658	5.80%	15,882,432	5.10%
100,000 and over	87	0.77%	273,140,835	87.78%
	11,354	100.00%	311,195,868	100.00%
Geographic Distribution				
Auckland and Northland	4,190	36.91%	244,296,744	78.50%
Waikato and Central North Island	2,053	18.08%	12,345,540	3.97%
Lower North Island and Wellington	2,035	17.92%	24,634,137	7.92%
Canterbury, Marlborough and Westland	1,130	9.95%	15,035,354	4.83%
Otago and Southland	825	7.27%	3,279,884	1.05%
Australia	982	8.65%	11,139,471	3.58%
Other Overseas	139	1.22%	464,738	0.15%
	11,354	100.00%	311,195,868	100.00%

Distribution of Bondholders and Holdings as at 9 September 2011

SIZE OF SHAREHOLDING	NUMBER OF BONDHOLDERS	PERCENTAGE	NUMBER OF BONDS	PERCENTAGE
5,000 – 9,999	289	15.41%	1,547,000	1.55%
10,000 – 49,999	1,324	70.62%	23,695,000	23.70%
50,000 – 99,999	160	8.53%	8,741,000	8.74%
100,000 – 499,999	85	4.53%	12,352,000	12.35%
500,000 – 999,999	5	0.27%	2,927,000	2.93%
1,000,000 and over	12	0.64%	50,738,000	50.73%
	1,875	100.00%	100,000,000	100.00%
Geographic Distribution				
Auckland and Northland	595	31.74%	21,275,000	21.28%
Waikato and Central North Island	327	17.44%	22,368,000	22.36%
Lower North Island and Wellington	442	23.57%	30,492,000	30.48%
Canterbury, Marlborough and Westland	275	14.67%	6,505,000	6.51%
Otago and Southland	222	11.84%	16,398,000	16.40%
Australia	4	0.21%	2,357,000	2.36%
Other Overseas	10	0.53%	605,000	0.61%
	1,875	100.00%	100,000,000	100.00%

Stock Exchange Listing
The ordinary shares of The Warehouse Group Limited are listed on the New Zealand and Australian stock exchanges.

Ordinary Shares
The total number of voting securities of the company on issue on 9 September 2011 was 311,195,868 fully paid ordinary shares.

Holders of each class of equity security as at 9 September 2011

CLASS OF EQUITY SECURITY	NUMBER OF HOLDERS	NUMBER OF SHARES OR RIGHTS
Ordinary Shares	11,354	311,195,868
Share Rights		
– Executive share scheme	40	2,349,000

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.

Non-marketable Parcel of Shares
As at 9 September 2011, the number of shareholders holdings less than the marketable parcel of A$500 under the listing rules of the ASX is 634.

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

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 NZSX 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 $
2011	4.05	3.35
2010	4.55	3.30
2009	4.05	3.02
2008	6.64	3.77
2007	7.32	4.55

(ii) The six most recent months

	SHARE PRICE HIGH $	SHARE PRICE LOW $
September 2011	3.47	3.15
August 2011	3.57	3.21
July 2011	3.60	3.46
June 2011	3.69	3.41
May 2011	3.77	3.60
April 2011	3.68	3.38

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 approximately 90% of adjusted net profit to shareholders.

On 15 September 2011 the Directors declared a fully imputed final dividend of 6.5 cents per share bringing the total dividend for the year to 22.0 cents per share. The dividends will be fully imputed at a rate of 30.0 percent and will be paid on 16 November 2011 to all shareholders on the share register at the close of business on 4 November 2011.

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

Cents per share

DIVIDENDS	2011	2010	2009	2008	2007
Interim	15.5	15.5	15.5	15.5	12.0
Final	6.5	8.5	5.5	5.5	5.5
Subtotal	22.0	24.0	21.0	21.0	17.5
Special	–	6.5	10.0	–	35.0
Total	22.0	30.5	31.0	21.0	52.5

Auditor
PricewaterhouseCoopers have continued to act as auditors of the company, and have undertaken the audit of the financial statements for the 31 July 2011 year.

Disciplinary Action
Neither the NZX nor ASX has 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 $724,000 (2010: $121,000) 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.

Limitations on the Acquisition of Company's Securities
The terms of the company's admission to the ASX require the following disclosure.

The Warehouse Group Limited is incorporated in Auckland, New Zealand. As such, it is not subject to Chapters 6, 6A, 6B and 6C of the Australian Corporations Act dealing with the acquisition of shares (such as substantial holdings and takeovers). Limitations on acquisition of the securities are, however, imposed on the company under New Zealand law:

(a) In general, securities in the company are freely transferable and the only significant restrictions or limitations in relation to the acquisition of securities are those imposed by New Zealand laws relating to takeovers, overseas investment and competition.

(b) The New Zealand Takeovers Code creates a general rule under which the acquisition of more than 20 per cent of the voting rights in the company or the increase of an existing holding of 20 per cent or more of the voting rights in the company can only occur in certain permitted ways. These include a full takeover offer in accordance with the Takeovers Code, a partial takeover offer in accordance with the Takeovers Code, an acquisition approved by an ordinary resolution, an allotment approved by an ordinary resolution, a creeping acquisition (in certain circumstances) or compulsory acquisition if a shareholder holds 90 per cent or more of the voting rights in the company.

(c) The New Zealand Overseas Investment Act 2005 and Overseas Investment Regulations 2005 regulate certain investments in New Zealand by overseas persons. In general terms the consent of the New Zealand Overseas Investment Commission is likely to be required where an "overseas person" acquires shares or an interest in shares in the company that amount to more than 25 per cent of the shares issued by the company or, if the overseas person already holds 25 per cent or more, the acquisition increases that holding.

(d) The New Zealand Commerce Act 1986 restricts a person from acquiring shares in the company if the acquisition would have, or would be likely to have, the effect of substantially lessening competition in a market.

Material Differences
There are no material differences between ASX Appendix 4E and NZX Appendix 1 issued by the company on 16 September 2011 for the year ended 31 July 2011 and this Annual Report.

Financial Calendar

	HALF YEAR	FULL YEAR
Balance date	31 January 2012	29 July 2012
Results announced	March 2012	September 2012
Dividends paid	April 2012	November 2012
Quarterly sales announced	November 2011	May 2012
	March 2012	September 2012

Directory

Board of Directors
Graham Evans (Chairman)
Keith Smith (Deputy Chairman)
Robert Challinor
James Ogden
Janine Smith
Sir Stephen Tindall
Eduard (Ted) van Arkel

Group Chief Executive Officer
Mark Powell

Chief Financial Officer
Luke Bunt

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

Australia
TWGA Pty Ltd
C/- Allens Arthur Robinson
Level 28
Deutsche Bank Place
Corner of Hunter and Phillip Streets
Sydney NSW 2000, Australia

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 in the country in which their shares are registered.

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.

New Zealand
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

Australia
Computershare Investor Services Pty Limited
Yarra Falls, 452 Johnston Street
Abbotsford VIC 3067
GPO Box 242
Melbourne VIC 3001
Australia
Freephone: 1 800 501 366 (within Australia)
Telephone: +61 3 9415 4083 (overseas)
Facsimile: +61 3 9473 2500

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 Listings
NZSX trading code: WHS
ASX trading code: WHS

Company Numbers
NZ Incorporation: AK/611207
ARBN 094 719 089

Website
www.thewarehouse.co.nz

New Zealand Business Council for Sustainable Development

The company is a member of the New Zealand Business Council for Sustainable Development (NZBCSD).

The NZBCSD 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 to advocate business positions on these issues in a variety of forums, working with governments, non-governmental and inter-governmental organisations.

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www.thewarehouse.co.nz
www.warehousestationery.co.nz

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